Understanding Business

UNDERSTANDING BUSINESS

EDITED BY ANELA TOMAC

Conestoga Open Learning
Kitchener

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PREFACE

Understanding Business serves as a comprehensive introduction to the dynamic world of business. Designed with first-year college and university students in mind—particularly those new to the subject—this textbook provides a solid starting point for learners aspiring to build a career in business.

The book explores the core functions of business operations, demonstrating how various departments collaborate to drive sales, manage financial resources, innovate products and services, engage customers, and make strategic decisions. It also covers vital themes such as ethical business practices, corporate social responsibility, teamwork, risk management, and personal financial literacy. In addition, readers are introduced to the principles of entrepreneurship and the critical roles that managers and leaders play in organizational success.

With a focus on Canadian economic and banking systems, the text offers localized insights while maintaining a global perspective through examples drawn from Canada, the U.S., and beyond.

This open educational resource (OER), edited by Anela Tomac, is based on *Business Fundamentals* by Kerri Shields. Both *Understanding Business* and *Business Fundamentals* trace their origins to the 2018 Canadian edition of Virginia Tech's *Fundamentals of Business*.

In response to the evolving business landscape, Kerri Shields enhanced the original content by integrating material from additional OERs, updating statistics, and expanding coverage in areas such as entrepreneurship, marketing, management, personal finance, sustainability, and ethics. She also introduced new chapters on business success and risk management.

Building on this foundation, Anela Tomac reorganized and restructured the table of contents and further developed the resource to meet the needs of today's introductory business courses, incorporating career spotlight vignettes, sustainability and entrepreneurial initiatives, and short case studies with discussion questions to enrich student engagement and learning. Anela included more Canadian examples and made additional changes for conciseness, currency, and clarity. Some substantive chapter changes and chapter features unique to *Understanding Business* are summarized in Table 0.1.

Table 0.1: Changes and unique chapter features in *Understanding Business*

Chapter	Title	Revisions
1	Habits for Business Success and Teamwork	Included a section on teamwork. Added a team charter as an example. Removed the section on personal finances, pet peeves, and cultural norms.
2	Business Concepts	Added examples of SWOT and PESTEL analyses.
3	Economics and Banking	An example of scarcity was added to illustrate the concept. Removed the section on M-3 money.
4	Global Business	Added content on cross-cultural literacy and Hofstede's Cultural Dimensions Theory, and illustrated it with a comparison of Canadian and Filipino cultures.
5	Ethics and Social Responsibility	The Principles for Responsible Management (PRME) and Conestoga College's commitment to PRME are showcased in section 5.1: CSR and the UN's SDGs.
6	Entrepreneurship and Business Structure	Added an example of a business plan for a hypothetical product. Showcased the Conestoga Entrepreneurship Collective in section 6.9: Support for Entrepreneurs. Included the real-life entrepreneurial journey of a Kitchener-based new Canadian.
7	Management and Leadership	Added a SWOT analysis for lululemon and an example of managerial skills.
8	Marketing Management	Used the example of Tim Hortons to illustrate the 4Ps of marketing.
9	Human Resources Management	Removed the sections on employment law and unions. Condensed the section on training.
10	Financial Management and Accounting	Condensed the section on financing. Removed the section on breakeven analysis.
11	Operations Management	No substantive changes.
12	Information and Risk Management	No substantive changes.
13	Managing Personal Finances	No substantive changes.

Key Features of this OER

Structure

This OER is divided into thirteen chapters. Each chapter begins with an overview of the content to be covered

and lists the objectives the student will achieve after reading the chapter. Each learning objective is linked to a section within the chapter, thereby ensuring that a student attains all the learning outcomes after reading the chapter.

Real-world Scenarios and Realistic Cases

The narrative provides several examples of real business scenarios, including examples of sustainable businesses, entrepreneurial pathways, supply chain issues, information breaches, and ethical lapses. Current graphs and tables connect learning to the real world.

Career Spotlights

Most chapters end with engaging end-of-chapter vignettes that feature successful business people, many of whom are Conestoga alumni. Their profiles and quotes give students insights into their career trajectories.

Examples

Examples are embedded throughout the content. Some useful examples include samples of a team charter, business plan, SWOT analysis, and PESTEL analysis, among others.

Short scenario-based cases

Although the case scenarios are hypothetical, they are based on realistic examples and present students with a business problem, followed by a brief overview of the situation. Discussion questions can be used for classroom debate or can be assigned by the instructor for individual reflection or group work.

Emphasis on Readability

We used tools that increase readability and speed review of the material, including headings and subheadings, bolded key terms within the text that are hyperlinked to definitions, end-of-chapter key takeaway summaries, and a glossary of terms.

Review and Practice

Each chapter ends with key takeaways that reinforce learning by summarizing the most critical points from each section.

The multiple-choice questions are programmed as interactive activities that provide students with a self-

test opportunity at the end of the chapter. They also offer students feedback in real-time to confirm their understanding of the concepts presented in each section.

The "End-of-Chapter Exercises" test students' understanding of the concepts presented in each chapter and encourage students to expand their understanding by researching various concepts on the Internet and presenting their findings to the group.

Engaging "Chapter in Review" PDFs are available for students to download for offline review.

Instructor Ancillaries

A Test Bank and Case Study Solutions are available for this OER. Note that requesting faculty must be vetted before Open Learning at Conestoga College can distribute these ancillaries. Ancillaries are for teaching purposes and should not be shared publically.

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Anela Tomac
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Chapter 2: Business Concepts and Teamwork	"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: Business Concepts and Teamwork	"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
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  - Section 3.1: Example: Scarcity of farmland
  - Section 4.5: A comparison of Canadian and Filipino cultures using Hofstede's six dimensions
  - Section 6.7: Business plan — SafeStep Solutions
  - Section 7.3: Common managerial skills
  - Section 7.5: SWOT analysis — lululemon
  - Section 8.5: Marketing mix and Tim Hortons
  - Appendix: Case Studies and Case Studies Solutions
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ABOUT THE EDITOR

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Outside of her professional life, Anela enjoys travelling to her native Europe and spending quality time with her family.

CHAPTER 1: HABITS FOR BUSINESS SUCCESS AND TEAMWORK

CHAPTER PREVIEW

This chapter is designed to equip you with essential knowledge and skills that will help you succeed in your undergraduate studies and prepare you for a thriving career in business.

Learning Objectives

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. Identify the study skills, learning styles, and college supports that will help you succeed in your undergraduate studies.
4. Describe the habits and tips that will help you to succeed in your academic and professional career.
5. Discuss ways in which a student can gain business work experience and learn professional etiquette.
6. Identify team types, stages of formation, team roles, and characteristics.
7. Identify factors that can cause conflict and affect team performance and discuss ways to resolve these.

1.1: 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 have without a postsecondary credential. Some of the other benefits of obtaining a higher education credential include the following:

- *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]
- *Higher wages.* Workers with 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]
- *Increased job security.* You may be better equipped for economic turmoil if you have a college or university credential.[5]
- *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]

1. Rego, A. (2021, February 23). *Higher education offers benefits to newcomers.* Prepare for Canada.

2. World Education Services. (n.d.). *About WES credential evaluation*.

3. Andrews, G. (2024, August 12). Is college worth it? Consider these factors before enrolling. *Forbes*.

4. Statistics Canada. (2023, October 4). *Employment income statistics by highest level of education: Canada, provinces and territories, census divisions and census subdivisions*.

5. Kumok, Z. (2023, June 14). 7 compelling reasons why you should go to college. *Forbes*.

6. Kumok, Z. (2023, June 14). 7 compelling reasons why you should go to college. *Forbes*.

- *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' personal 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.

7. Kumok, Z. (2023, June 14). 7 compelling reasons why you should go to college. *Forbes*.

1.2: BUILD THE SKILLS EMPLOYERS NEED

In addition to the 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 in order 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 miscommunication about project objectives is the number one reason why projects fail?[1]

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. You'll find new content on digital skills and social and emotional skills to help you understand some of the skills that are in high demand by employers. 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.[2]

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

1. Stone, K. (2020, July 9). *The state of project management in 2023 [42 statistics]*. Saalist.

2. Conference Board of Canada. (n.d.). *Finding your employability skills*.

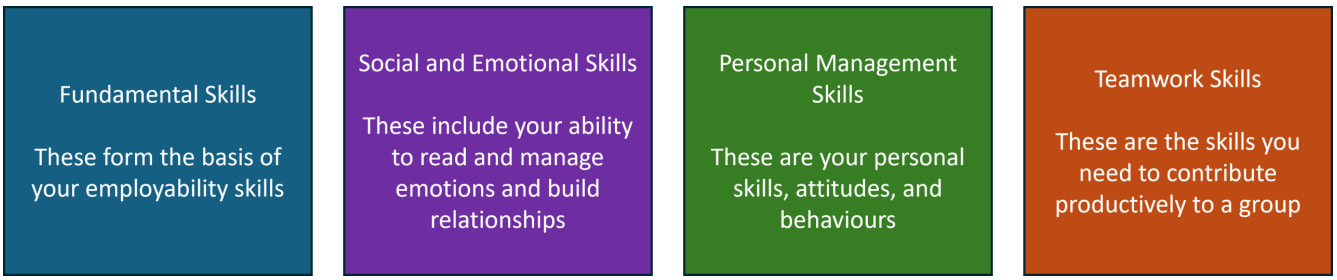


Figure 1.1: The Conference Board of Canada's four categories of employability skills. [See image description.]

According to a blog post by Matt Gavin at Harvard Business School Online, every professional should know the following business fundamentals:[3]

- *Analytics.* The demand for professionals with a keen understanding of business analytics and data science is on the rise.
- *Financial accounting.* No matter your profession, understanding the meaning behind the numbers on financial statements can be a boon to your career.
- *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.
- *Leadership.* The ability to lead and mobilize others is vital for all professionals.
- *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.
- *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.
- *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.

Communication Skills

The communication skills identified by the Conference Board of Canada include the following.[4]

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3. Gavin, M. (2019, September 26). *7 business fundamentals professionals in every industry should know.* Harvard Business School Online.

4. Conference Board of Canada. (n.d.). *Finding your employability skills.*

- 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:[5]

- 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.

5. Conference Board of Canada. (n.d.). *Finding your employability skills*.

Employability Skills – Have You Got Them?

Watch 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.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=43#oembed-1

Transcript for "Employability Skills—Have You Got Them?" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: The WOW Show. (2020, March 1). *Employability skills – have you got them?* [Video]. YouTube.

Media Attributions

"Figure 1.1: Conference Board of Canada: Four Categories of Employability Skills is adapted from Chapter 1: Habits for Business Success in Business Fundamentals, 1st Edition, © Kerri Shields, licensed under CC BY-NC-SA.

Image Descriptions

Figure 1.1

- Blue square – "Fundamental Skills: These form the basis of your employability skills."
- Purple square – "Social and Emotional Skills: These include your ability to read and manage emotions and build relationships."

- Green square – “Personal Management Skills: These are your personal skills, attitudes, and behaviours.”
- Dark orange square – “Teamwork Skills: These are the skills you need to contribute productively to a group.”

[back to figure]

1.3: 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 get you through those long study sessions.[1]



Student studying and making notes.

- *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.
- *Block distracting apps.* Set your phone to Do Not Disturb to silence notifications.
- *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.
- 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.
- 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.
- *Reward yourself.* Incorporating a reward system into your study routine can significantly enhance your motivation and productivity.
- *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.

1. Claire. (2024, August 1). *12 insanely smart study hacks for college students.* College Savvy.

- *Study in groups.* If you're studying the same information as the people around you, it can actually 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.
- *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.
- *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![2]

Learning Style

It is important for you 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 four predominant learning styles: Visual, Auditory, Read/Write, and Kinaesthetic. Often, colleges and universities have assessments you can take that will 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 you are struggling to learn the concepts, you may need to make a plan to help yourself. For example, if the professor is teaching in lecture format and you need more examples and videos, then after class, you might search online for videos or examples that will help

2. Utah State University. (n.d.). *SQ4R reading system* [PDF].

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 off completing assignments until the night before they are due, 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 ahead 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, 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.

- Can I ask a friend to share their work with me?
- Can I hire someone to do the work for me?
- Can I get a generative AI such as ChatGPT to do the work for me?
- Can I use an assignment mill such as Course Hero to find the assignment answer posted by someone else?



A 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

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 them 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 you familiarize yourself with the institution's policies, and specifically the academic integrity policy.

Avoid Plagiarism

Plagiarism is when you use someone else's work and submit it as your own. This includes ideas, images, content, or any other type of creative work. To avoid plagiarism and academic integrity violations, you must properly cite all sources. Plagiarism is considered unethical, and Conestoga College has strict policies against it. Always follow the citation rules provided by your professors.

Formatting Standards

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 on 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.

APA Formatting Style

Most college and university libraries provide style guides for APA, MLA and other document formats. The Purdue Online Writing Lab (OWL) 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 Purdue

OWL APA Formatting Guidelines, the Conestoga College library guides, and the library guides from CSUDH, which are also very comprehensive.

Introduction to APA Style

Watch 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.



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Transcript for "Introduction to Citation Styles: APA 7th ed." video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: CSUDH Library. (2019, October 29). *Introduction to citation styles: APA 7th ed.* [Video]. YouTube.

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1.4: DEVELOP HABITS THAT SUPPORT YOUR SUCCESS

The Seven 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.[1]

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

- *Be proactive.* Control your environment rather than have it control you.
- *Begin with the end in mind.* Envision the desired outcome and concentrate on activities that help in achieving it.
- *Put first things first.* Manage time and effort so that the required tasks are prioritized.
- *Think win-win.* Co-operative effort, so there are no losers.
- *Seek first to understand, then to be understood.* Listen to others first, let them know they have been heard before you speak.
- *Synergize.* People cooperating can often achieve more than one person could alone.
- *Sharpen the saw.* Take time to think, learn, and analyze.

Nine 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.[2]

1. Nicholson, R. (2024, July 16). *7 habits of highly effective people*. Hubspot.

2. Herrity, J. (2024, August 15). *9 tips for building a successful career you enjoy*. Indeed.

- *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 Career 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 Career office.
- *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, grow, and prepare yourself for the career you want.
- *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.
- *Reflect often.* Frequently reflecting on your career progress, current circumstances, and future options can help you build a successful career.
- *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.
- *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.
- *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.
- *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 regarding 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 by 19%, reduced anxiety by 13% and improved wellbeing by 7%, according to research published in the *British Journal of Health Psychology.*[4] In business, mindfulness

3. Indeed Editorial Team. (March 26, 2025). *12 Tips for creating smart goals.* Indeed.

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.[5] 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.[6] Here's how you can practice mindfulness for 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.[7]

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.

4. Remskar, M., Western. M.J., & Ainsworth, B. (2024, August 21). Mindfulness improves psychological health and supports health behaviour cognitions: Evidence from a pragmatic RCT of a digital mindfulness-based intervention. *British Journal of Health Psychology.* https://doi.org/10.1111/bjhp.12745

5. Greiser, C., Martini, J., & Meissner, N. (2018, April 26). *Unleashing the power of mindfulness in corporations*. BCG.

6. Mind Tools (n.d.). *Mindfulness in the workplace*.

7. Brower, T. (2024, October 31). How 5 mindfulness techniques can help your workplace productivity. *Forbes.*

Time Management Techniques for Stress Free Productivity

Play the YouTube video below, "Time Management Techniques for Stress Free Productivity," for some time management tips for stress-free productivity.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=52#oembed-1

Transcript for "Time Management Techniques for Stress Free Productivity" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: Young Entrepreneurs Forum. (2016, August 15). *Time management techniques for stress free productivity* [Video]. YouTube.

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:[8]

8. Kubala, J. (2023, July 12). *16 simple ways to relieve stress*. Healthline.

- Get more physical activity
- Eat a balanced diet
- Minimize phone use and screen time
- Practice self-care
- Try journaling
- Reduce your caffeine intake
- Spend time with friends and family
- Create boundaries and learn to say no
- Avoid procrastination
- Take a yoga class
- Practice mindfulness
- Cuddle
- Spend time in nature
- Practice deep breathing
- Spend time with a pet
- 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.

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

Introduction to Test-Taking Strategies

Watch the YouTube video below, "Introduction to Test-Taking Strategies" from Conestoga College, for a quick review of helpful test-taking tips.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=52#oembed-2

Transcript for "Introduction to Test-Taking Strategies" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: Conestoga College Student Success. (2025, January 23). *Introduction to test-taking strategies* [Video]. YouTube.

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1.5: ACQUIRE WORK EXPERIENCE AND LEARN PROFESSIONAL ETIQUETTE

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:

- 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.
- 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.
- Freelance projects can be a flexible way to build expertise. Platforms like Upwork and Fiverr offer numerous opportunities to work on real-world projects.
- Experiential course projects can help you gain real business experience. Many institutions offer experiential 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.
- 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.
- Gain practical experience by participating in workshops and lab sessions.
- Gain business experience by getting involved in student-run businesses or start-ups.
- 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.

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.

The Five Zones of Professional Etiquette

Watch the YouTube video "The Five Zones of Professional Etiquette" below to learn about professional etiquette.



One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=55#oembed-1

Transcript for "The Five Zones of Professional Etiquette (Student Version)" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: Bovee and Thill. (Young Entrepreneurs Forum). (2018, January 20). *The five zones of professional etiquette (student version)* [Video]. YouTube.

1.6: 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. Figure 1.2 shows the five common types of teams: Problem-solving teams, self-managed teams, cross-functional teams, virtual teams, and work teams.

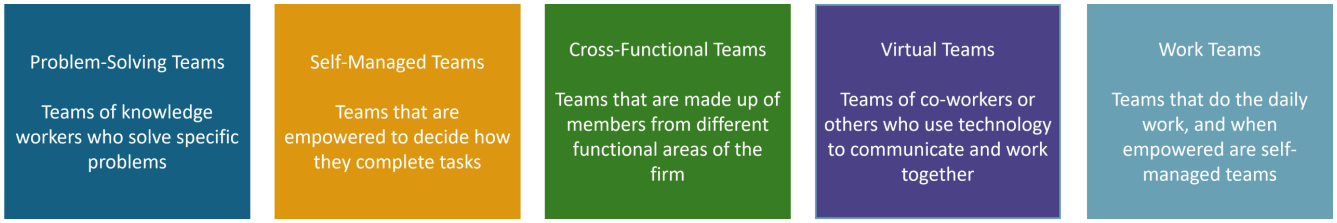


Figure 1.2: Five types of teams: Problem-solving, self-managed, cross-functional, virtual, and work teams. [See image description.]

Team Stages

Forming, Storming, Norming, and Performing

Watch 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.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=59#oembed-1

Transcript for "Forming, Storming, Norming, and Performing: Bruce Tuckman's Team Stages Model Explained" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: MindToolsVideos. (2014, November 10). *Forming, storming, norming, and performing: Bruce Tuckman's team stages model explained*. [Video]. YouTube.

Team Roles

Team roles can be divided into two categories, task-facilitating roles and relationship-building roles. Table 1.1 provides a summary of the two categories of team roles.

Table 1.1: Team member roles

Task-facilitating roles	Example	Relationship-building roles	Example
Direction giving	"Jot down a few ideas and we'll see what everyone has come up with."	**Supporting**	"Now, that's what I mean by a practical application."
Information seeking	"Does anyone know if this is the latest data we have?"	**Harmonizing**	"Actually, I think you're both saying pretty much the same thing."
Information giving	"Here are the latest numbers from ..."	**Tension relieving**	"Before we go on, would anyone like a drink?"
Elaborating	"I think a good example of what you're talking about is ..."	**Confronting**	"How does that suggestion relate to the topic that we're discussing?"
Urging	"Let's try to finish this proposal before we adjourn."	**Energizing**	"It's been a long time since I've had this many laughs at a meeting in this department."
Monitoring	"If you'll take care of the first section, I'll make sure that we have the second by next week."	**Developing**	"If you need some help pulling the data together, let me know."
Process analyzing	"What happened to the energy level in this room?"	**Consensus building**	"Do we agree on the first four points even if number five needs a little more work?"
Reality testing	"Can we make this work and stay within budget?"	**Empathizing**	"It's not you. The numbers are confusing."
Enforcing	"We're getting off track. Let's try to stay on topic."	**Summarizing**	"Before we jump ahead, here's what we've decided so far."

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, these roles include 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.

Self-Check Exercise: Blocking Roles

So-called blocking roles consist of behaviour that inhibits either team performance or that of individual members. Every member of the team should know how to recognize blocking behaviour. 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/understandingbusiness/?p=59#h5p-1

Seven Characteristics of Effective Teams

Effective teams share the following characteristics:[1]

- *Clear leadership.* Successful teams usually have effective leadership, where one or several members act as team leaders. This helps unify the entire team so that they can work toward the same goals. Effective leaders often provide guidance, motivation and focus.
- *Defined goals.* Before working on their tasks, an effective team may first establish their goals. The team might work together to identify common objectives that align with a company's organizational goals.
- *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 role 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.
- *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.
- *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.
- *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.
- *Conflict resolution.* Successful teams usually have effective methods for resolving any conflicts that may

1. Indeed Editorial Team. (2024, August 15). *7 characteristics of effective teams (with benefits & tips)*. Indeed.

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.

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.[2]

- **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, and the timing and frequency of meetings. See Figure 1.3 for a sample team charter. 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, 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.

2. Feenstra, K. (n.d.). *Study skills: Teamwork skills for group projects.* Issues I Face.

Team Charter for a Marketing Presentation Assignment

Team Name: The Market Mavericks

Team Members:

- Roozbeh Nuri
- Remi Roy
- Kiran Patel
- Huan Li

Project Overview:

Our team will create a marketing presentation for a new product launch. The presentation will include market analysis, target audience identification, marketing strategies, and a promotional plan.

Team Goals:

- **Quality**: Deliver a high-quality presentation that meets or exceeds the assignment criteria.
- **Timeliness**: Complete all tasks and submit the presentation by the deadline.
- **Collaboration**: Work effectively as a team, leveraging each member's strengths.
- **Learning**: Gain a deeper understanding of marketing principles and presentation skills.

Roles and Responsibilities:

- **Roozbeh Nuri (Team Leader)**: Coordinate team meetings, ensure tasks are on track, and compile the final presentation.
- **Remi Roy (Research Analyst)**: Conduct market research and gather data on the target audience and competitors.
- **Kiran Patel (Content Developer)**: Develop the content for the presentation, including the marketing strategies and promotional plan.
- **Huan Li (Designer)**: Create the visual elements of the presentation, including slides, graphics, and any multimedia components.

Meeting Schedule:

- **Weekly Meetings**: Every Monday at 4:00 p.m.

- **Check-ins**: Quick check-ins via group chat every Wednesday and Friday

Communication Plan:

- **Primary Communication**: Group chat on a messaging app (e.g., WhatsApp)
- **Secondary Communication**: Email for sharing documents and formal updates
- **File Sharing**: Use a shared folder on Google Drive for all project-related files

Decision-Making Process:

- **Consensus**: Decisions will be made by consensus whenever possible.
- **Voting**: If consensus cannot be reached, decisions will be made by majority vote.

Conflict Resolution:

- **Open Communication**: Address conflicts openly and respectfully during team meetings.
- **Mediation**: If conflicts cannot be resolved within the team, seek assistance from the course instructor.

Milestones and Deadlines:

- **Market Research Completed**: February 21
- **Content Development Completed**: February 28
- **Design and Visuals Completed**: March 7
- **Final Review and Revisions**: March 10
- **Presentation Submission**: March 14

Team Norms:

- **Respect**: Treat all team members with respect and value their contributions.
- **Responsibility**: Complete assigned tasks on time and to the best of your ability.
- **Participation**: Actively participate in meetings and discussions.
- **Support**: Help team members when needed and provide constructive feedback.

This team charter outlines the structure, goals, and expectations for the team, helping ensure a smooth and productive collaboration.

Artificial Intelligence Disclosure: *The Team Charter was created with the assistance of Microsoft Copilot, an AI-based tool designed to generate text based on user inputs. In*

accordance with the current guidance from Creative Commons, the content created using Generative AI tools is shared under a CC1.0 Universal Deed.

Figure 1.3: A Sample Team Charter

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 or charter is important to ensure all members have input on how the team will work together. This charter or contract can also be referenced if a team member is not working to expectations. Figure 1.3 shows a sample charter for a marketing assignment.

Consider Figure 1.3 and then attempt the following activity, which 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 in this template and fill in the blanks to generate a basic team charter or 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/understandingbusiness/?p=59#h5p-2

Media Attributions

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International License, except where otherwise noted. Figure 1.8 is based on information from Whetten & Cameron (2007). *Developing management skills*, 7th ed. Pearson Education. pp. 517, 519.

"Figure 1.2: Five Types of Teams: Problem-solving, self-managed, cross-functional, virtual, work teams" is adapted from Chapter 2: Business Concepts and Teamwork in Business Fundamentals, 1st Edition, © Kerri Shields, licensed under CC BY-NC-SA.

Image Descriptions

Figure 1.2

A row of five colored rectangles, each showing a different type of team.

- Dark blue square – "Problem-Solving Teams: Teams of knowledge workers who solve specific problems"
- Orange square – "Self-Managed Teams: Teams that are empowered to decide how they complete tasks"
- Green square – "Cross-Functional Teams: Teams that are made up of members from different functional areas of the firm"
- Purple square – "Virtual Teams: Teams of co-workers or others who use technology to communicate and work together"
- Light blue square – "Work Teams: Teams that do the daily work, and when empowered are self-managed teams"

[back to figure]

1.7: FACTORS AFFECTING TEAM PERFORMANCE

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."[1]

Numerous factors may contribute to team cohesiveness, including;

- *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; team members also 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

1. Wale, H. (n.d.). *Team cohesion*. CFI.

team goals, the whole team may lose sight of the larger organizational goals toward which it is supposed to be working.

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 possess some managerial skills. In particular, every team requires some combination of these 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 own 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 them to be carried out. This approach to workplace activities may not work very well in leading a team, and the success of this approach depends on building consensus and letting people make their own decisions.

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

How to Deal with Conflict

Watch the YouTube video, "How to Deal with Conflict," to gain a few tips on how to work through a conflict with a team member.



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Transcript for "How to Deal with Conflict" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: Litmos Heroes. (2014, December 12). *How to deal with conflict* [Video]. YouTube.

CAREER SPOTLIGHT

Julie Dupont



Julie Dupont

Julie Dupont is the Principal Strategist at Reimagine Leadership. As an experienced facilitator, team builder, and certified coach, Julie has been called upon to share her skills, knowledge, and experience in leadership and team development locally and globally.

Certified in various team communication tools, she frequently facilitates team-building sessions to enhance cohesion, teamwork and strategic goal achievement. She thoroughly enjoys her work with clients of all sizes and industries, and teams appreciate her ability to create space for meaningful conversations.

Julie prides herself on creating engaging environments that make learning easy and fun. Her passion for personal growth is demonstrated by her contagious enthusiasm and belief in the power of transforming lives through authentic connections and courageous conversations.

"The keys to success, in business and in life, are emotional intelligence skills and excellent communication. Get those skills right, and everything else becomes easier."

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CHAPTER REVIEW

Key Takeaways

- **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.
- **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.
- **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.
- **Learning styles** refer to the different methods of learning or understanding new information, the way a person takes in, understands, expresses and remembers information. There are four predominant learning styles: Visual, Auditory, Read/Write, and Kinaesthetic.
- 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.
- **Academic integrity** is a commitment to acting with honesty, trust, fairness, respect, and responsibility in academic work and studies.
- 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 on 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.

- 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. The 7 Habits are: 1) Be proactive, 2) Begin with the end in mind, 3) Put first things first, 4) Think win-win, 5) Seek first to understand, then to be understood, 6) Synergize, and 7) Sharpen the saw.
- **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.
- **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.
- 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.
- **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.
- **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.
- 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.
- **Task-facilitating** roles help the team accomplish goals.
- **Relationship-building** roles help team members understand their roles, support them in their roles, and maintain or improve group cohesiveness.
- **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.
- **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 skills** needed for success include communication skills, technical skills, decision-making and problem-solving skills, and interpersonal skills.

- **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.
- 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.

Download the "Chapter in Review" for Chapter 1: Habits for Business Success and Teamwork [PDF].

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, PennState APA Quiz, 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 partner and/or your professor. Listen to the ways in which others are putting these habits into action.
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 to 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. **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 the pet peeves you and your classmates have with a partner, the class, or your professor. 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.
11. **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. As a team, pair up with another team and guide them through your 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.

12. **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.
13. **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.
14. **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.
15. **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: 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/understandingbusiness/?p=65#h5p-3

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 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/understandingbusiness/?p=65#h5p-4

Additional Resources

- Mindfulness at Work – How to be Mindful At Work Tips. YouTube Video.
- What is Mindfulness? YouTube Video.
- 16 Business Etiquette Tips for Every Working Professional
- GPA Calculator
- How to Convert Your GPA to a 4.0 Scale
- Test Taking Tips
- Cornell Note Taking Method
- The 20 Business Leaders Who Changed the World for the Better
- Zotero. Collect, organize, annotate, cite and share research.
- How Professional Are You? (Quiz)
- Personal SWOT Analysis Quick Guide
- Successful Student Team Projects

Attributions

This chapter compiles content from various Open Educational Resources (OER). For details, please refer to the Attributions page.

CHAPTER 2: BUSINESS CONCEPTS

CHAPTER PREVIEW

This chapter aims to provide a comprehensive overview of fundamental business concepts and the environment in which businesses operate.

Learning Objectives

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

1. Explain the role played by the government in Canadian business.
2. Distinguish between for-profit and not-for-profit organizations.
3. Explain the economic benefits derived when businesses earn profits.
4. Describe current trends in consumer behaviour and the business community's response to those trends.
5. Describe the public, private, and non-profit business sectors and distinguish between the manufacturing and service industries.
6. Identify stakeholders relevant to an organization.
7. Describe functional areas of business.
8. Describe the factors of production.
9. Differentiate between the internal, micro, and macro business environments.

2.1: THE ROLE OF THE 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 stability and encourage 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.[1]
- 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).

1. Government of Canada. (2023, December 7). *What the government buys*.

2.2: DIFFERENTIATE BETWEEN FOR-PROFIT AND NOT-FOR-PROFIT ORGANIZATIONS

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.[1] 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. These concerns include developing a 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, which can include 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.

1. Government of Canada. (2016, June 23). *What is the difference between a registered charity and a non-profit organization?*

2.3: ECONOMIC BENEFITS WHEN BUSINESSES EARN PROFITS

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).[1]

1. UNDP. (n.d.). *Human development reports.*

Table 2.1: Ranking — Human Development Index 2023/2024

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

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.[2]

2. Mercer. (2023). *Quality of living city rankings 2023*. Retrieved November 1, 2024, from https://www.mercer.com/en-ca/insights/total-rewards/talent-mobility-insights/quality-of-living-city-ranking/

2.4: BUSINESS SECTORS AND INDUSTRIES

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 sector** includes goods and services produced, delivered, and allocated by the government and public sector organizations (publicly controlled 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 aim of the public sector is 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 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, charity, or other type of non-profit organization. A private voluntary association is a group of volunteers who enter into 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 the 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 about the non-profit sector.[1]

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 a hospital in the public or private sector? Are all hospitals non-profit organizations? Is a 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. Public sector hospitals are owned by the government and receive government funding. Most hospitals across Canada are publicly funded organizations, although they also raise additional funds through donations. 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, and donations. 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.

Similarly, Canada has private sector, for-profit and private sector, and 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 in which they are based, 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.

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1. Government of Canada. (2022, November 22). *The government of Canada announces that national funders have been selected to support charities and non-profits.*

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

2.5: BUSINESS PARTICIPANTS AND STAKEHOLDERS

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

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 favourite 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, for obvious reasons in most cases. 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.

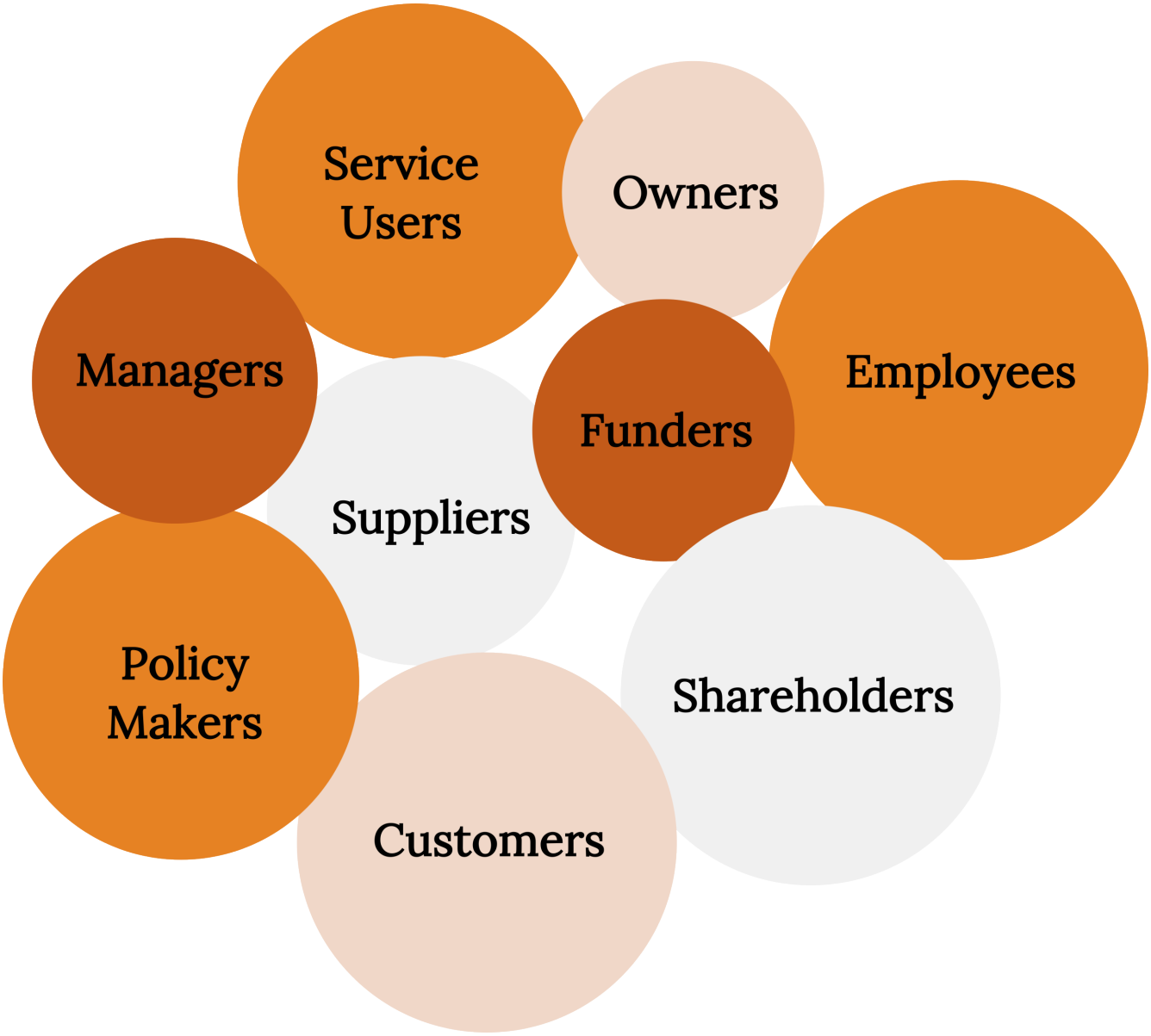


Figure 2.1: Common business stakeholders include the environment, service users, policy makers, the public, managers, customers, the government, shareholders, funders, employees, suppliers, and owners. [See image description.]

Media Attributions

"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" is reused from Business Stakeholders, © 2022 by Kindred Grey, licensed CC BY 4.0.

Image Descriptions

Figure 2.1

Nine circles of varying colours and diameters labelled with different business stakeholders. The circles are arranged clockwise in the following order: owners, employees, shareholders, customers, policy makers, managers, and service users. The two circles in the middle are for funders and suppliers.

[back to figure]

2.6: 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 really 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, 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 organize the work according to the type of work. In small businesses, the owner may perform 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.

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.

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.

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 differentiate 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.

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.

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.

A **financial manager** addresses 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.

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, and 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.

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2.7: 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 consider knowledge to be the 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.



Figure 2.3: The five factors of production — natural resources, human resources, capital, entrepreneurs, and knowledge.

Natural Resources

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. The 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.

Human Resources

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

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 refer to 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.

Entrepreneurs

Entrepreneurs are the people who combine the inputs of natural resources, labour, 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 costs are almost zero. Entrepreneurs include people such as

Amazon founder and chairman Jeff Bezos, who was named the second richest person in the world in 2025.[1] Many thousands of individuals have started companies that, while remaining small, make a major contribution to the economy.

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.

Media Attributions

"Figure 2.3: The five factors of production — natural resources, human resources, capital, entrepreneurs, and knowledge" is adapted from Chapter 2: Business Concepts and Teamwork in Business Fundamentals, 1st Edition, © Kerri Shields, licensed under CC BY-NC-SA.

1. Forbes Staff. (2025, April 1). *The Top Ten Richest People in the World (April 2025)*. *Forbes Australia*.

2.8: THE INTERNAL AND EXTERNAL BUSINESS ENVIRONMENTS

Internal Environment

The **internal business environment** 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.

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

- Management
- Materials
- Machinery
- Money
- 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), and NOISE,

SOAR, or SCORE analyses 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.[1] You will learn more about how managers analyze the business environment 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.[2]

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. 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.

1. Blackmore, L. (2024, July 24). *What is internal analysis?* Cascade.

2. Blackmore, L. (2024, July 24). *What is internal analysis?* Cascade.



Figure 2.4: Diagram showing the relationship of internal, micro, and macro business environments. [See image description.]

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.[3]

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. This acronym represents external factors that affect the business, including political, economic, sociocultural, technological, environmental, and legal factors (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 action when it comes to safety warnings 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, other 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.

A PESTEL analysis for Tim Hortons provides an overview of the external factors that can impact Tim Hortons' business operations. Understanding these factors helps the company strategize and adapt to the changing business environment.

PESTEL Analysis —Tim Hortons

Political Factors

- **Government Stability**: Canada is known for its stable political environment, which provides a secure operating environment for businesses like Tim Hortons.
- **Trade Agreements**: The CUSMA (Canada-United States-Mexico Agreement) facilitates easier trade between Canada, the US, and Mexico, benefiting Tim Hortons' supply chain and expansion plans.

3. Shaw, A. (n.d.). *What is the macro environment? Definition and examples*. Marketing Tutor.

Economic Factors

- **Economic Growth**: Canada's economy is diverse and robust, with significant contributions from various sectors, including services, which benefits Tim Hortons.
- **Consumer Spending**: Economic challenges such as inflation and rising costs can affect consumer spending power, impacting sales at Tim Hortons.

Social Factors

- **Cultural Trends**: Canadians value convenience and quality in their food choices. Tim Hortons' menu caters to these preferences with a variety of quick-service options.
- **Health Consciousness**: Increasing health awareness among consumers is pushing Tim Hortons to offer healthier menu options.

Technological Factors

- **Digital Transformation**: Tim Hortons has been investing in digital technologies such as mobile ordering apps and loyalty programs to enhance customer experience.
- **Automation**: The use of automation in operations can improve efficiency and reduce costs [5].

Environmental Factors

- **Sustainability Initiatives**: Tim Hortons is focusing on sustainable practices, such as phasing out plastic straws and sourcing coffee beans responsibly.
- **Consumer Demand**: There is a growing demand for environmentally friendly products, which Tim Hortons is addressing through various green initiatives.

Legal Factors

- **Regulations**: Compliance with Canadian food safety and labelling regulations is crucial for Tim Hortons.
- **Tariffs and Trade Policies**: Changes in tariffs and trade policies can affect the cost of imported ingredients and materials.

Artificial Intelligence Disclosure: *The PESTEL analysis for Tim Hortons was created with the assistance of Microsoft Copilot, an AI-based tool designed to generate text based on user*

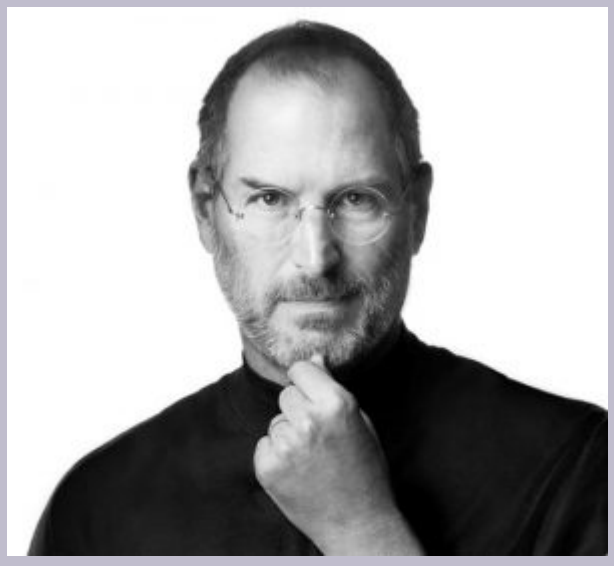
inputs. In accordance with the current guidance from Creative Commons, the content created using Generative AI tools is shared under a CC1.0 Universal Deed.

The Apple World of Business

Why is Apple so successful?

In 1976, Steve Jobs and Steve Wozniak created their first computer, the Apple I. 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 — people who take the risks and reap the rewards associated with starting a new business enterprise.

Have you ever wondered 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 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, founder of Apple.

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.[4]

"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."[5] 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 was to 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."[6]

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?

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4. Angelelli, L. (1994). *Steve Paul Jobs*. Interactive Learning with a Digital Library in Computer Science.

5. Angelelli, L. (1994). *Steve Paul Jobs*. Interactive Learning with a Digital Library in Computer Science.

6. Farivar, C. (2006, June 2). *30 years of Apple: Assessing Apple's impact*. Macworld.

Source: Adapted from the Saylor Foundation's Exploring Business available under CC BY-NC-SA license, and based on Testa, D.M. (2007). *Apple, Inc.: An analysis of the firm's tumultuous History, in conjunction with the abounding future* [Unpublished honours thesis]. Lehigh University.

Media Attributions

"Figure 2.4: Diagram showing the relationship of internal, micro, and macro business environments" is adapted from Chapter 2: Business Concepts and Teamwork in Business Fundamentals, 1st Edition, © Kerri Shields, licensed under CC BY-NC-SA.

"Steve Jobs 1955-2011" by Segagman on Flickr; CC BY 2.0 Generic.

Image Description

Figure 2.4

Small purple circle, which reads "The Company Internal Environment: Mission, Vision, Strategy, Resources, Processes, Products and Services" is contained within the medium blue circle.

Medium blue circle, which reads "Mico-Environment: Public, Marketing Intermediaries, Suppliers, Customers, Competitors, Employees" is contained within the large yellow circle.

Large yellow circle reads "Macro-Environment: Political Factors, Economic Factors, Sociocultural Factors, Technological Factors, Environmental Factors, and Legal Factors.

[back to figure]

CHAPTER REVIEW

Key Takeaways

- **Government** influences business activity through the roles it plays.
- A **business** is an organization that strives for a profit by providing goods and services desired by its customers.
- **Goods** are tangible items manufactured by businesses, such as laptops.
- **Services** are intangible offerings of businesses that can't be held, touched, or stored.
- **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.
- If a company has money left over after it pays all costs, it has a **profit.**
- A company whose costs are greater than its revenues incurs a **loss.**
- **Risk** is the potential to lose time and money or otherwise not be able to accomplish an organization's goals.
- 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.
- The **standard of living** of any country is measured by the output of goods and services people can buy with the money they have.
- **Quality of life** refers to the general level of human happiness based on factors including life expectancy, educational standards, health, sanitation, and leisure time.
- 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 **private business sector** includes goods and services produced and delivered by private individuals or groups as a means of enterprise for profit.
- The **non-profit or voluntary sector** includes non-governmental, non-profit organizations

that receive support from individual citizens, government, and businesses.

- **Business participants** are the people who participate in conducting the work of the business.
- **Stakeholders** are those affected by a business's operations and its decisions. Examples of stakeholders include shareholders, investors, the community, customers, competitors, and governmental agencies.
- **Functional areas in a business** refer to different departments or sections that perform specific tasks, such as human resources, operations, accounting, and finance.
- The **Human Resources (HR) functional area** is an organizational function that is about searching for, selecting, training, and maintaining workers.
- **Operations** is the organizational function that is focused on producing the goods and/or services of the business.
- **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.
- **Accounting** is the organizational function that is focused on recording, keeping, analyzing and communicating financial information.
- 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.
- **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.
- 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* as a fifth factor, acknowledging its key role in business success.
- The **internal business environment** refers to the elements within the organization that influence its operations and decision-making.
- The **micro-environment** may be defined as including groups and organizations that have a direct relationship with the business.
- The **macro-environment** refers to the broader conditions of an economy as opposed to specific markets.

Download the "Chapter in Review" for Chapter 2: Business Concepts [PDF].

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 a 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. **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.

Self-Check Exercise: Business Concepts

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/understandingbusiness/?p=92#h5p-5

Additional Resources

- What are the Functional Areas of Business?
- What are Stakeholders?

- Download a Free Internal Analysis Toolkit
- Business Fundamentals Every Professional Should Know
- Business Analytics: What it is and Why it is Important?

Attributions

This chapter compiles content from various Open Educational Resources (OER). For details, please refer to the Attributions page.

CHAPTER 3: ECONOMICS AND BANKING

CHAPTER PREVIEW

This chapter will provide you with a comprehensive overview of key economic principles and the role of banking in the global economy.

Learning Objectives

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

1. Describe how different economic systems control the factors of production through input and output markets.
2. Describe the different types of global economic systems.
3. Identify the various degrees of competition in the Canadian economic system.
4. Describe the law of supply and demand and how the equilibrium price is determined.
5. Describe what occurs at each of the four stages of the business cycle.
6. Analyze several leading economic indicators to forecast future economic trends.
7. Summarize how the government uses both monetary and fiscal policies to stabilize the economy as a result of business cycle fluctuations.
8. Explain the role of money as a medium of exchange, the finiteness of the supply of money, and the role of the Bank of Canada in managing the supply of money.
9. Explain how the World Bank and the International Monetary Fund assist with international trade.

3.1: 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 was 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.

Farmland in Canada—An Example of Scarcity

A great example of scarcity in Canada is the limited availability of good farmland. Despite Canada's vast size, only about 5% of the land is suitable for crop production.[1] This scarcity of fertile land

1. Food Policy for Canada. (n.d.). *Agricultural land protection*. York University.

means that farmers must make careful decisions about what crops to grow and how to use their land most efficiently.

- **Resource Allocation**: Scarcity forces farmers to prioritize which crops to plant based on factors like market demand, soil quality, and climate conditions.
- **Economic Trade-offs**: Farmers might have to choose between growing high-value crops that require more resources or lower-value crops that are easier to cultivate.
- **Impact on Prices**: Limited farmland can lead to higher prices for agricultural products, as the supply is constrained while demand remains high.

Artificial Intelligence Disclosure: *Example 3.1 was created with the assistance of Microsoft Copilot, an AI-based tool designed to generate text based on user inputs. In accordance with the current guidance from Creative Commons, the content created using Generative AI tools is shared under a CC1.0 Universal Deed.*

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.

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 other resources together to produce a good or service that can be sold in the marketplace.

Because a business uses resources to produce things, we also call these resources factors of production. For example, the factors of production used to produce a shirt would include the following:

- the land that the shirt factory sits on, the electricity used to run the plant, and the raw cotton from which the shirts are made;
- the labourers who make the shirts;
- the factory and equipment used in the manufacturing process, as well as the money needed to operate the factory; and
- the entrepreneurship skills and production knowledge used to coordinate the other resources to make the shirts and distribute them to the marketplace.

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 labour and buying goods and services. Then, from firms to individuals in the form of wages and providing goods/services.[2] 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 3.1, "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.

2. Study.com. (n.d.). *How do you explain the circular flow model?*

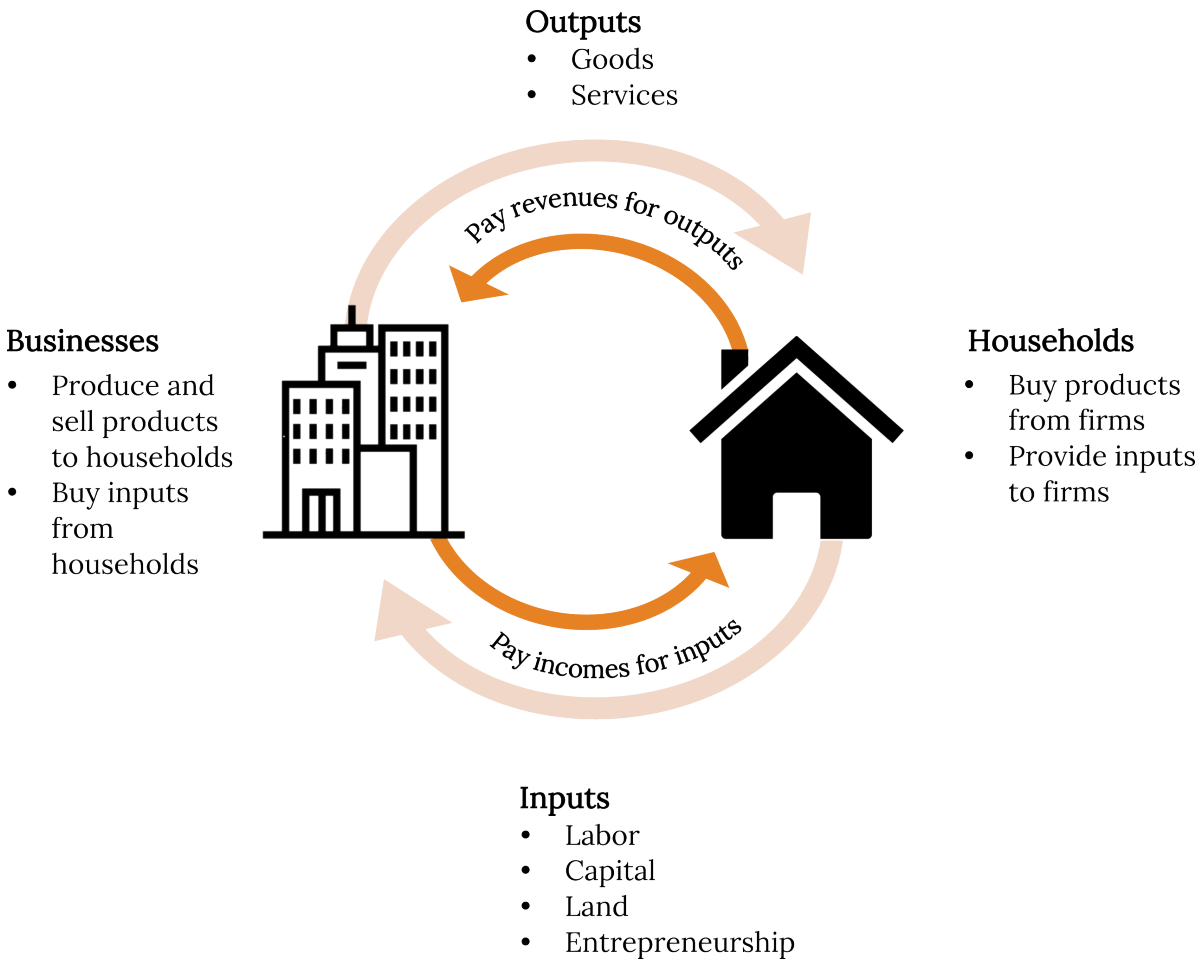


Figure 3.1: The circular flow of inputs and outputs. [See image description.]

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 labour, 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. 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.

Labour productivity is the most common productivity measure—it's defined as economic output (gross domestic product, or GDP) per hour worked. Labour productivity is typically the biggest determinant of economic and wage growth in the long term. And over time, labour productivity and real wages are closely—though not exactly—linked. Labour productivity tends to rise with increases in technology.

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 labour 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 labour 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 3.2 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.

3. McKinsey & Company. (2024, May 16). What is productivity?

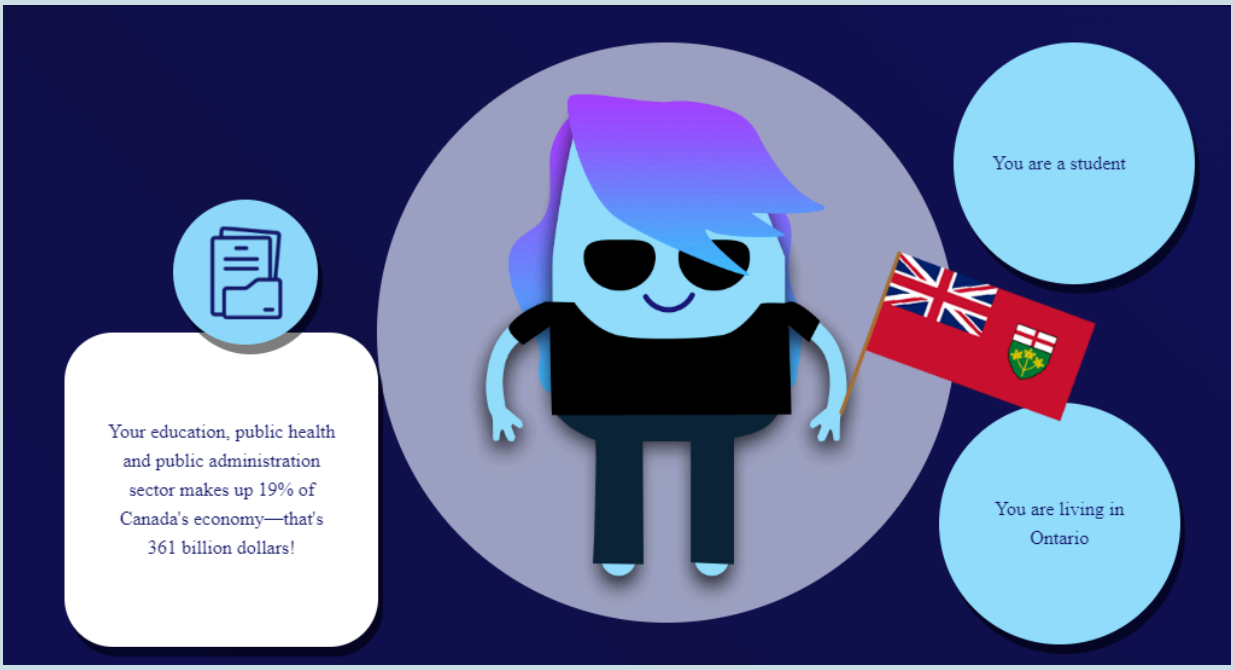


Figure 3.2: Your role in the Canadian economy quiz. [See image description.]

Media Attributions

"Figure 3.1: The circular flow of inputs and outputs" is reused from Circular flow of inputs and outputs, © 2022 by Kindred Grey, licensed CC BY 4.0.

"Figure 3.2: Your role in the Canadian economy quiz" © Bank of Canada, licensed under Terms of Use.

Image Descriptions

Figure 3.1

A circular diagram shows the reciprocal relationship between businesses and households in the economy. It features two main sections: "Businesses" on the left, depicted by a black and white icon of buildings, and "Households" on the right, depicted by a house. Under Businesses are listed "Produce and sell products to households" and "Buy inputs from households." Under households are listed "Buy products from firms" and "Provide inputs to firms.". Two orange arrows depict the flow of resources and money, one showing "Pay

revenues for outputs" from households to businesses, and another "Pay incomes for inputs" from businesses to households. The caption on the top lists "Outputs" as "Goods" and "Services," and the caption at the bottom lists "Inputs" as "Labour," "Capital," "Land," and "Entrepreneurship."

[back to figure]

Figure 3.2

A screen capture of the "Your Role in the Canadian Economy" quiz, with a stylized, cartoon-like character with a blue body, black shirt, sunglasses, and vibrant blue and purple hair, standing within a large light purple circular background against a dark blue backdrop. The character holds an Ontario flag. Surrounding the character are three circular elements: one on the top right with the text "You are a student," another on the bottom right stating, "You are living in Ontario," and a third on the left with an icon of a document above the text box. A rectangular text box below this icon states, "Your education, public health and public administration sector makes up 19% of Canada's economy—that's 361 billion dollars!"

[back to figure]

3.2: 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:

- What goods and services should be produced to meet consumers' needs? In what quantity? When?
- How should goods and services be produced? Who should produce them, and what resources, including technology, should be combined to produce them?
- 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.

Generally speaking, economic systems can be divided into two systems: planned systems and free market systems (refer to Figure 3.3).

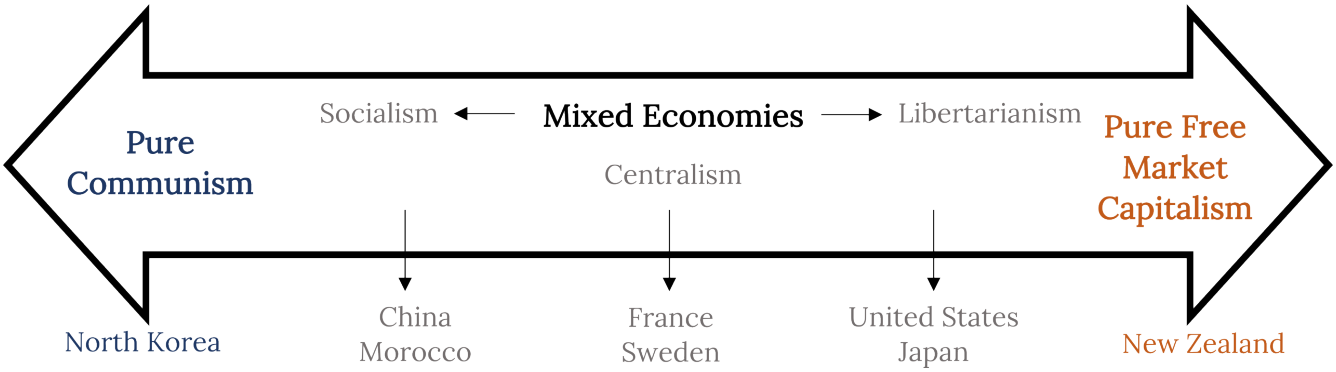


Figure 3.3: Economic Systems: Planned, free, and mixed. [See image description.]

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 toward 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 of who received these services, an outcome that few in American society would consider 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, leaning toward either free market or socialist 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 toward 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 neighbour 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.

Adam Smith espoused the free market system 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.

Watch the Indigenous Lifeways in Canadian Business video "Indigenous Entrepreneurship."



One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=104

Transcript of "Indigenous Entrepreneurship" video [PDF–New Tab]. Closed caption available in video player.

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"Figure 3.3: Economic Systems: Planned, free, and mixed" is reused from The economic spectrum, © 2022 by Kindred Grey, licensed CC BY 4.0.

Image Descriptions

Figure 3.3

The economic spectrum is represented as an outlined horizontal, double-headed arrow. The left side is labelled "Pure Communism" in blue, with North Korea beneath it, and the right side is labelled "Pure Free Market Capitalism in orange, with New Zealand beneath it. Inside the central section of the arrow is a heading in bold labelled "Mixed Economies" with a greyed out heading on the left with the label "Socialism," and a

greyed out heading on the right labelled “Libertarianism”. Directly under the heading Mixed Economies is a smaller greyed out heading labelled “Centralism”. Lines with arrows point downward from markers along the spectrum to list example countries: “China” and “Morocco” fall under “Socialism,” while “France” and “Sweden” are aligned with “Centralism.” “United States” and “Japan” are positioned under “Libertarianism.”

[back to figure]

3.3: 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. In a **mixed economy**, such as 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 3.1 below, economists have identified four types of competition — **perfect competition**, **monopolistic competition**, **oligopoly**, and **monopoly**.

Table 3.1: Four types of competition

Characteristics	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, 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 grocery sector—when one chain offers discounts or promotions, others typically follow suit to attract customers and maintain market share.

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.[1] 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.[2] 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.

1. Brown, S. (2021, November 10). *What happens when a patent expires?* Patent Experts.

2. Bellis, M. (2019, July 3). *Learn about Edwin Land, inventor of the Polaroid camera.* ThoughtCo.

3.4: 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. 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 quantity that sellers are willing to sell.

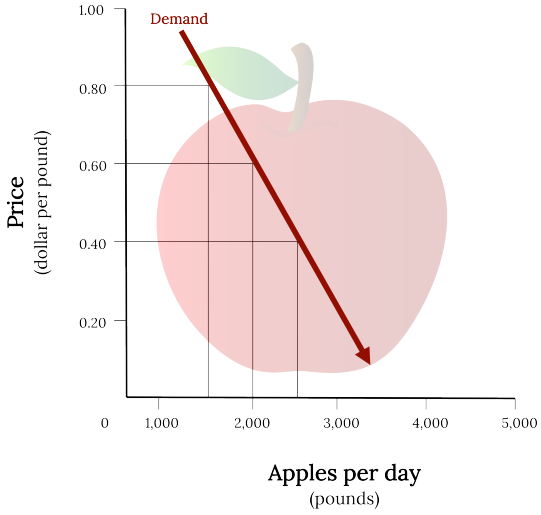


Figure 3.4: The demand curve. [See image description.]

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 3.4, "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.

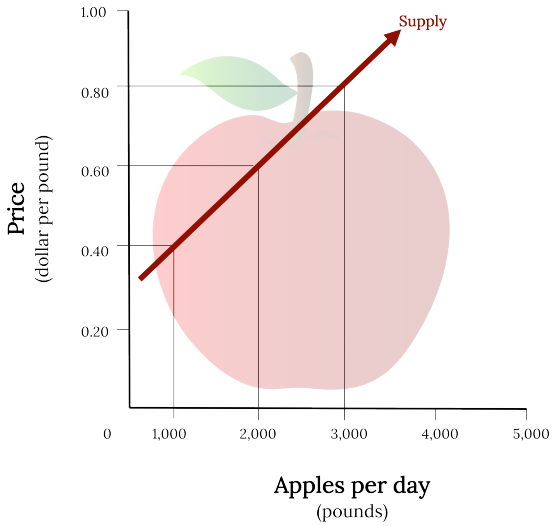


Figure 3.5: The supply curve. [See image description.]

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 3.5, "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 3.6. "**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.

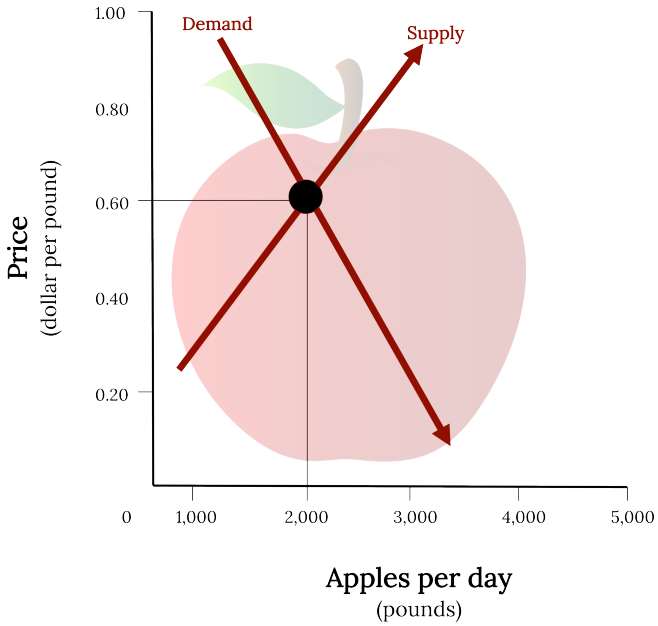


Figure 3.6: The equilibrium price. [See image description.]

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 favourable 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.

Media Attributions

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"Figure 3.5: The supply curve" is reused from Supply curve, © 2022 by Kindred Grey, licensed CC BY 4.0 and includes simple red apple from Openclipart.

"Figure 3.6: The equilibrium price" is reused from Equilibrium price, © 2022 by Kindred Grey, licensed CC BY 4.0 and includes simple red apple from Openclipart.

Image Descriptions

Figure 3.4

In the background is an apple. In the foreground is a graph of the demand curve for apples. The x-axis, representing apples (pounds per day) extends from 0 to 5,000 in 1,000 increments. The y-axis, price (dollars per pound) extends from 0 to 1.00 in 0.20 increments. The curve is a straight, negative line. Three lines show points of intersection from the y-axis to the x-axis. The first line set extends from 0.80 on the y-axis to the curve, and down from the curve to a point between 1,000 and 2,000 on the x-axis. The second line set extends from 0.60 to the curve, then from the curve to 2,000 on the x-axis. The third line set extends from 0.40 on the y-axis to the curve, then from the curve to a point between 2,000 and 3,000 on the x-axis.

[back to figure]

Figure 3.5

In the background is an apple. In the foreground is a graph of the supply curve for apples. The curve is a straight, positive line. The graph plots "Price" in dollars per pound on the vertical axis and "Apples per day" in pounds on the horizontal axis. The vertical axis ranges from 0 to 1.00 dollars per pound, marked at intervals of 0.20. The horizontal axis ranges from 0 to 5000 pounds, marked at 1000-pound intervals. A red line labelled "Supply" extends diagonally from the origin, rising to the right, indicating an increase in price per pound with the supply of apples per day. Three line sets show points of intersection from the y-axis to the x-axis. The first dashed line set extends from 0.80 on the y-axis to the curve, then from the curve to 3,000 on the x-axis. The second line set extends from 0.60 on the y-axis to the curve, then from the curve to 2,000 on the x-axis. The third line set extends from 0.40 on the y-axis to the curve, then from the curve to 1,000 on the x-axis.

[back to figure]

Figure 3.6

In the background is an apple. In the foreground is a graph displaying both the supply and demand for apples. The X-axis represents "Apples per day (pounds)" ranging from 0 to 5,000, and the Y-axis shows "Price (dollars per pound)" from 0.00 to 0.80. A black dot marks the equilibrium point where the two lines intersect. The demand curve, labelled in red and sloping downwards from left to right, crosses the supply curve, labelled also in red but sloping upwards from left to right, at the equilibrium. The intersection occurs at approximately 2,500 pounds and $0.60 per pound.

[back to figure]

3.5: 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. According to *FocusEconomics*, in 2025, the top five countries by GDP are: [1]

- United States: USD 30.4 trillion
- China: USD 19.6 trillion
- Germany: USD 5.0 trillion
- Japan: USD 4.4 trillion
- India: USD 4.3 trillion

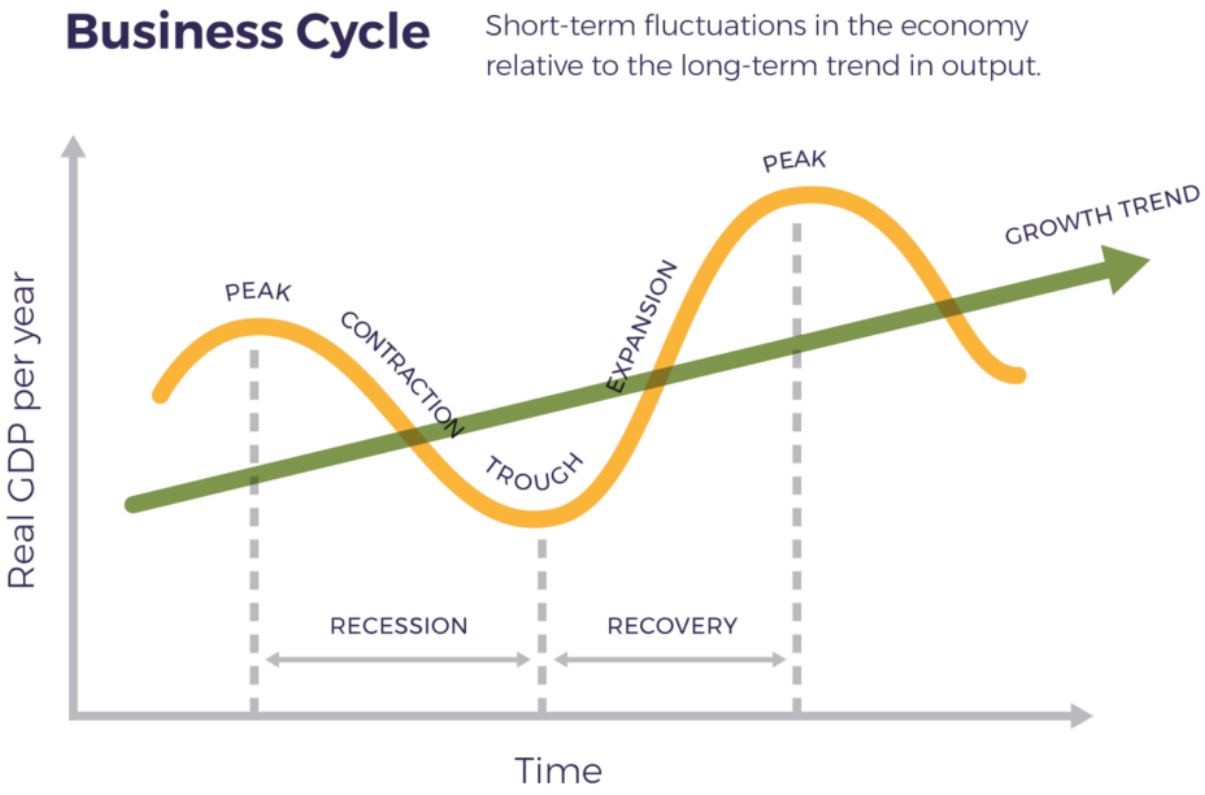


Figure 3.7: The business cycle. [See image description.]

As shown in Figure 3.7, 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

1. Focus Economics. (2024, November 20). *The top 10 largest economies in the world by GDP*.

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 a number of economic tools (some of which we'll discuss shortly) with which to fight any threat of a *depression***.**

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.

Unemployment

Statistics Canada tracks unemployment and reports the **unemployment rate**: the percentage of the labour force that is at least 15 years old and 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 3.8 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?

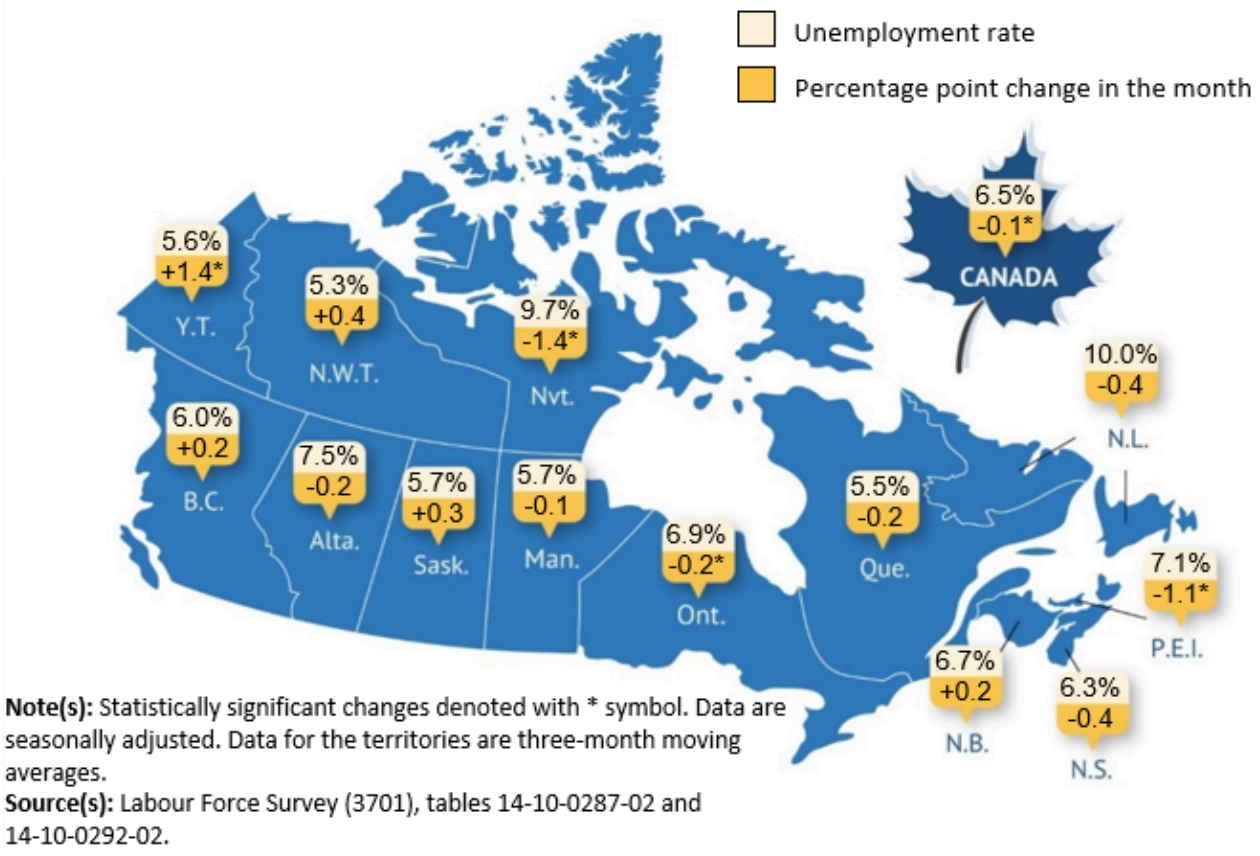


Figure 3.8: Statistics Canada, unemployment rate by province and territory, September 2024. [See image description.]

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, it leads to an increase in inflation.

The inflation rate in Canada averaged 3.02 percent from 1915 until 2025. This means that $100 in 1915 is equivalent in purchasing power to about $2,638.04 today, an increase of $2,538.04 over 110 years. [2]

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 from then to now. For example, ask a parent or an older neighbour what they paid for their first car, first house, or first

2. Webster, I. (n.d.). *Value of $100 from 1915 to 2025.* Official Data Foundation. Retrieved February 21, 2025, from https://www.officialdata.org/canada/inflation/1915?amount=100

formal wear. Observe Figure 3.9 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?

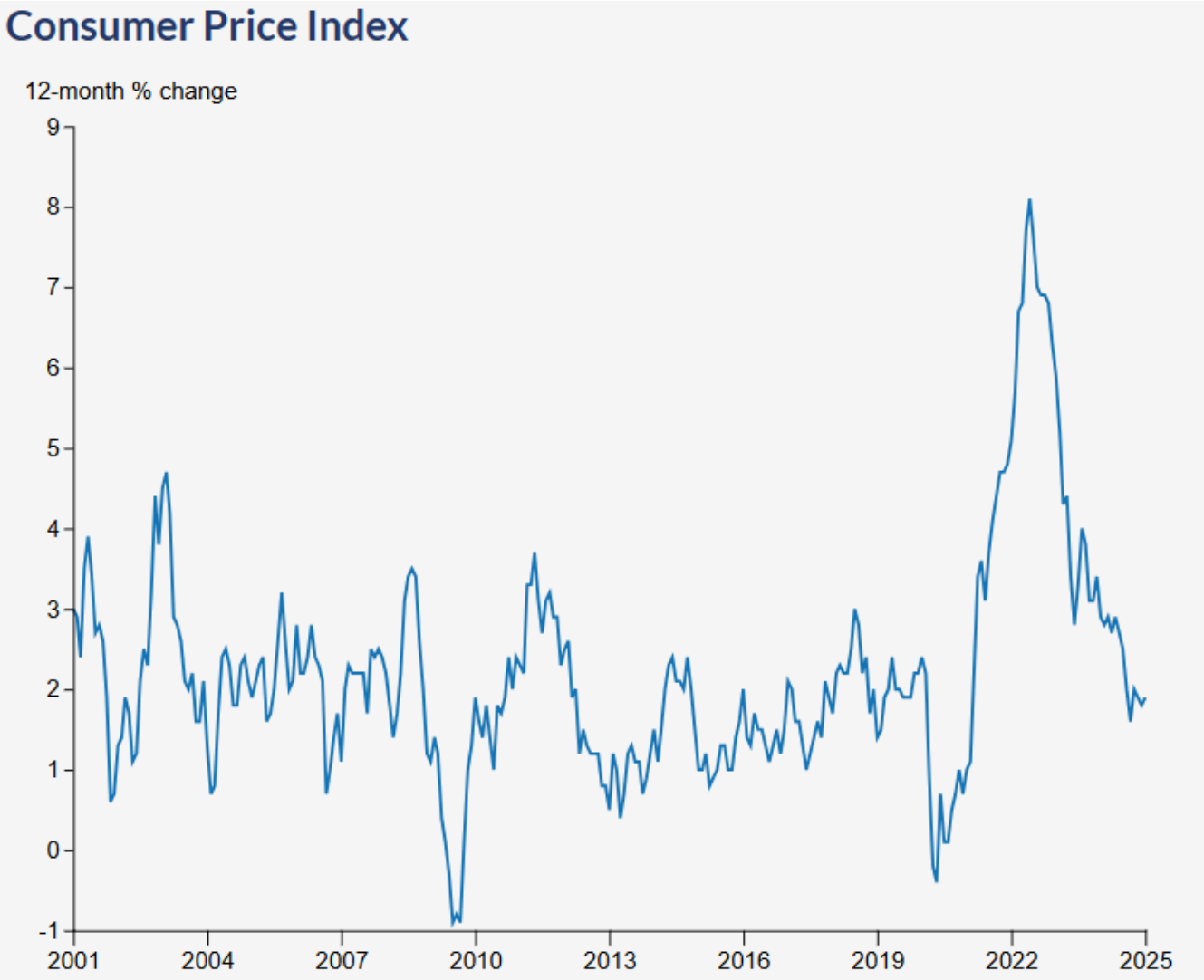


Figure 3.9: Statistics Canada Consumer Price Index from 2000 to 2025. [See image description.]

Media Attributions

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Figure 3.8: Statistics Canada, unemployment rate by province and territory, September 2024 (Source: Statistics Canada, 2024, November 10, based on Labour Force Survey (3701), tables 14-10-0287-02 and

14-10-0292-02. Reproduced and distributed on an "as is" basis with the permission of Statistics Canada.), © Statistics Canada, licensed under Statistics Canada Open license/All Rights Reserved.

Figure 3.9: Statistics Canada Consumer Price Index from 2000 to 2025. (Source: Statistics Canada, 2025, February 18, based on price trends: 1914 to today. Reproduced and distributed on an "as is" basis with the permission of Statistics Canada.), © Statistics Canada, licensed under Statistics Canada Open license/All Rights Reserved.

Image Descriptions

Figure 3.7

A graph diagram with the horizontal axis "Time," and the vertical axis "Real GDP per year." A wavy yellow line represents cyclical economic fluctuations, illustrating phases labelled "Peak," "Contraction," "Trough," and "Expansion," and "Peak." These phases are marked by vertical dashed lines. A horizontal arrow on the left between Peak and Trough is labelled "Recession," and the arrow to the right between Trough and the second Peak is labelled "Recovery," indicating periods of economic decline and growth. A green upward-sloping line labelled "Growth Trend" intersects the cyclical line, suggesting a long-term positive trend in economic output.

[back to figure]

Figure 3.8

A map of Canada with provincial and territorial borders and a legend. Each province and territory has a yellow callout listing the unemployment rate and percentage point changes in the month of September 2024. A legend at the top right corner explains the colour coding for the unemployment rate and percentage point change.

Province or Territory	Unemployment rate	Percentage point change in the month
Yukon	5.6%	+1.4*
Northwest Territories	5.3%	+0.4
Nunavut	9.7%	-1.4*
British Columbia	6.0%	+0.2
Alberta	7.5%	-0.2
Saskatchewan	5.7%	+0.3
Manitoba	5.7%	-0.1
Ontario	6.9%	-0.2*
Quebec	5.5%	-0.2
New Brunswick	6.7%	+0.2
Nova Scotia	6.3%	-0.4
Prince Edward Island	7.1%	-1.1*
Newfoundland and Labrador	10.0%	-0.4
Canada	6.5%	-0.1*

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.

[back to figure]

Figure 3.9

A line graph with a vertical axis ranging from -1 to 9, representing the percentage change, and a horizontal axis with the years from 2001 to 2025. The graph illustrates variable trends with peaks and drops, indicating periods of inflation and deflation over the years, trending between 0.5 and 5. In 2009, the line drops down to -1 and goes back to the range in 2010. After a drop just below 0 around 2020, the line has a notable spike up to 8 around 2022 .

[back to figure]

3.6: 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 performance. 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.

The three main Canadian economic indicators are **leading indicators**, **coincident indicators** and **lagging indicators**.

Leading Indicators

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. Leading 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 labour 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.

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 coincidental indicator in economics. New job creation reflects current economic activity and labour 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.

3.7: THE 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 influences business activities in many ways. The roles the government plays are as follows:

- Government as a customer
- Government as a competitor
- Government as a regulator—promoting competition, protecting consumers, achieving social goals and protecting the environment
- Government as a taxation agent
- Government as a provider of incentives
- Government as a protector of consumers or customers
- Government as a provider of essential services

Businesses may also influence government through lobbying, joining trade associations, making political donations and trying to convince voters to support or oppose certain regulations and policies.

In managing the economy, the government may use three main policies—monetary policy, fiscal policy, and national debt management.

Monetary Policy

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. As shown in Figure 3.10, 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.

The Bank of Canada will typically tighten or decrease the money supply during inflationary periods, making it harder to borrow money.

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.

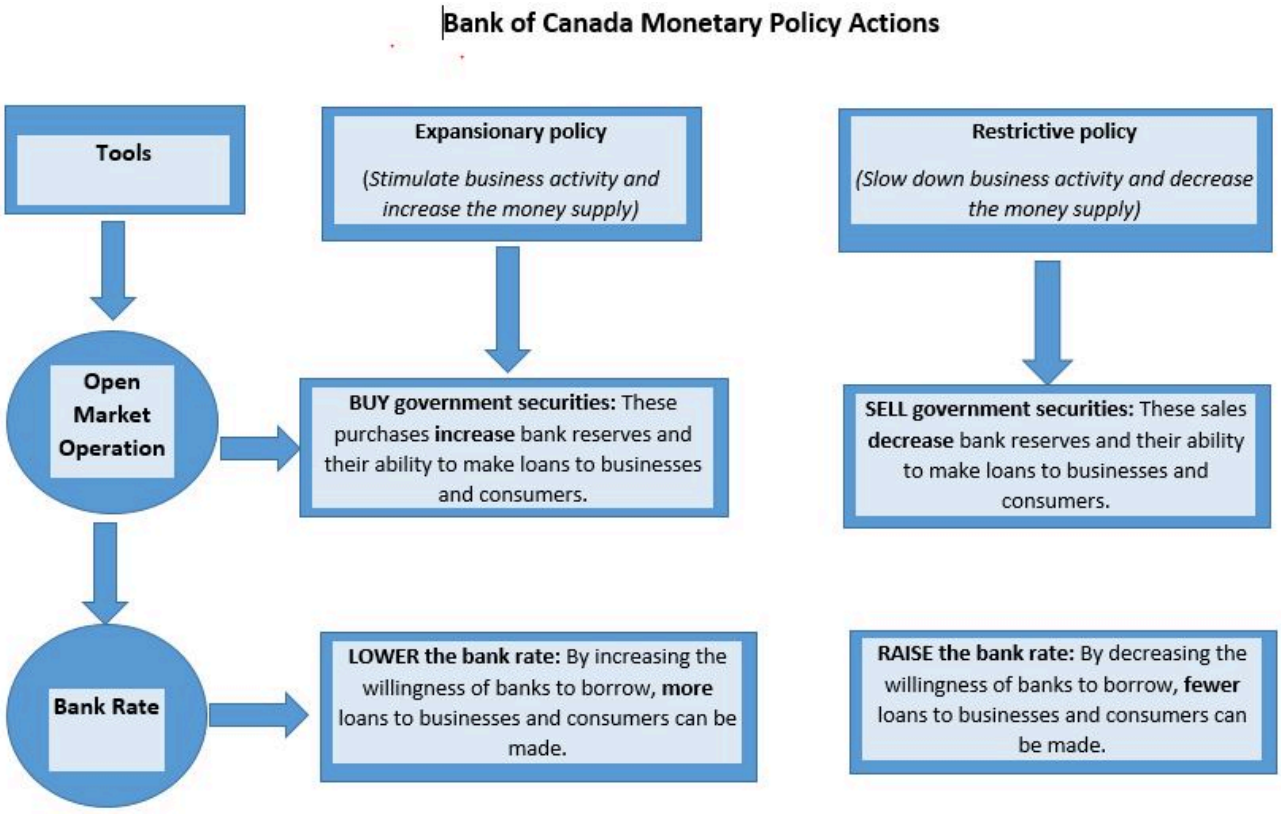


Figure 3.10: Bank of Canada monetary policy actions. [See image descriptions.]

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. If, in any given year, the government takes in more money (through taxes) than it spends on goods and services (for things such as defence, 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.[1]
- *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.[2]

1. Fuss, J., & Munro, G. (2024, January). *The growing debt burden of Canadians: 2024 edition.* Fraser Research Bulletin.

- *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.[3]

Media Attributions

"Figure 3.10: Bank of Canada monetary policy actions" is adapted from Chapter 16 – Money and Banking in Fundamentals of Business, © Florence Daddey and Rachael Newton, licensed under CC BY-NC-SA.

Image Descriptions

Figure 3.10

A flowchart titled "Bank of Canada Monetary Policy Actions" consists of nine boxes in three rows of three. On the far left, the top box is labelled Tools; under "Tools," an arrow point downwards to "Open Market Operation," where an arrow points down to "Bank Rate." Each of these have arrows pointing to the centre column.

The centre column is labelled "Expansionary policy (Stimulate business activity and increase the money supply)" and the left column is labelled "Restrictive policy (Slow down business activity and decrease the money supply)."

Expansionary Policy includes

- On the Open Market Operation level: BUY government securities: These purchases increase bank reserves and their ability to make loans to businesses and consumers.
- On the Bank Rate level: LOWER the bank rate: By increasing the willingness of banks to borrow, more loans to businesses and consumers can be made.

Restrictive Policy includes

- SELL government securities: These sales decrease bank reserves and their ability to make loans to

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2. Fuss, J., & Munro, G. (2024, January). *The growing debt burden of Canadians: 2024 edition.* Fraser Research Bulletin.

3. Fuss, J., & Munro, G. (2024, January). *The growing debt burden of Canadians: 2024 edition.* Fraser Research Bulletin.

businesses and consumers.

- RAISE the bank rate: By decreasing the willingness of banks to borrow, fewer loans to businesses and consumers can be made.

[back to figure]

3.8: THE CHARACTERISTICS AND SUPPLY 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 labourer 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 labourer will take money to clear 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 coins. If something costs $3, you don't have to rip up a $5 bill; you can pay with three $1 coins.
- 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 labourer 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 on a daily basis. 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 and M-2

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.

How much money is out there? As of March 2025, the M1 money supply in Canada was approximately 1,641,346 million CAD [1] In 2025, M-2 in Canada increased to CAD 2,695,496 million in March from CAD 2,689,800 million in February.[2]

1. Trading Economics. (n.d.) *Canada Money Supply M1*. Retrieved May 29, 2025, from https://tradingeconomics.com/canada/money-supply-m1

2. Trading Economics. (n.d.). *Canada money supply M2*. Retrieved May 26, 2025, from https://tradingeconomics.com/canada/money-supply-m2

What Exactly Is "Plastic Money"?

Are credit cards a form of money? If not, why do we call it plastic money? Actually, 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.



Credit cards are a plastic form of 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's four main areas of responsibility are:[3]

- *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.

3. Bank of Canada. (n.d.). *About us*.

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.

The Bank of Canada plays a vital role in *managing the country's money supply*. 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.

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"Credit cards, Denim, Jeans image" by TheDigitalWay, used under the Pixabay license.

3.9: THE 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.[1]

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; and
- 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

1. International Monetary Fund. (n.d.). *What is the IMF?*

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. Despite the fact that the U.S. has been instrumental in promoting global free trade for decades, the recent Trump Administration has stated its plans to withdraw from the WTO in 2025. The 2025 Trump administration has also been a proponent of tariffs and has implemented new tariff initiatives for many imports to the United States. Much of this is happening at the same time as this book is being written, so please keep abreast of the economic and trade policies of the Trump administration in 2025 to ensure you are up to date with the newest decisions.

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 need 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 favour

government-owned Chinese banks. Despite these obstacles, certain Canadian banks continue to do business in China.[2]

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 being 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 in a range of 65-70 percent. In November 2007, the Canadian dollar was stronger than the U.S. dollar, at USD $1.09. After a few years of parity, the Canadian dollar retreated to approximately USD $0.76 in June 2018.[3] 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

2. Bank of Canada. (n.d.). *About us*.

3. Xe. (n.d.). *US dollar to Canadian dollar exchange rate chart*.

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.

Future Trend: A Centralized Digital Currency

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 transactions within the network are regulated in a centralized location, like a bank. Cryptocurrencies are mostly decentralized, and the regulations within 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. However, the 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.[4]

Media Attributions

"Bitcoin, Cryptocurrency, Finance image" by BenjaminNelan, used under the Pixabay license.

4. Bank of Canada. (n.d.). *The road to digital money*.

CHAPTER REVIEW

Key Takeaways

- **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.**
- In Canada, the government and the free-market system guide the economy together.
- **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.
- 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 labour and buying goods and services. Then, from firms to individuals in the form of wages and providing goods/services.
- **Productivity** refers to how efficiently goods and services are being produced.
- 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, labour, 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.
- 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.
- 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.
- **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.
- **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.
- **The Equilibrium Price** is the state in which market supply and demand balance each other.
- 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.
- The **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)** 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.

- 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.**
- Statistics Canada tracks unemployment and reports the **unemployment rate**—the percentage of the labour force that is at least 15 years old, unemployed, and actively seeking work.
- **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.**
- 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 **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).
- **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.
- **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.
- 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 CAD 1134.49 billion in 2022 from CAD 1048.75 billion in 2021.
- **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 counterfeit. **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.

- The **Bank of Canada's** four main areas of responsibility are: monetary policy, financial systems, currency, and funds management.
- 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.
- 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.
- 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**.
- **Digital currencies** are currencies that are only accessible with computers or mobile phones because they only exist in electronic form.

Download the "Chapter in Review" for Chapter 3: Economics and Banking [PDF].

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 "per capita" mean? Why is GDP per capita in developing countries lower as compared to GDP per capita in developed countries? 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 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. Download the game, then play. You will act out the role of a fictitious central bank by implementing monetary policy in a simple virtual economy, all the while observing the limitations of monetary policy. Write a brief 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 a 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/understandingbusiness/?p=130#h5p-6

Additional Resources

- Markets, Efficiency, and Price Signals: Crash Course Economics. YouTube Video.
- The Free Market: Competition, Monopolies, and the Dynamics of Innovation. YouTube Video.
- What is a Monopoly? YouTube Video.
- Economy: What It Is, Types of Economies, Economic Indicators
- The Business Cycle: Aggregate Demand and Aggregate Supply. Khan Academy, YouTube Video.
- Factors of Production, AP Microeconomics, Khan Academy, YouTube Video.
- Labour Statistics: Statistics Canada
- How Much Federal Debt is Too Much For Canada? CBC News 2023, YouTube Video.
- Bank of Canada website
- Inflation calculator
- Gross Domestic Product (GDP) and Government Revenue Explained in One Minute. YouTube Video.
- Unemployment Rate and the Labor Force Participation Rate Compared in One Minute. YouTube Video.
- Difference Between Micro and Macro Economics. YouTube Video.
- Circular Flow Model: Definition and Calculation
- What is Productivity?
- Economics Games to Play!
- BANK! Apple App Game
- Imports, Exports, and Exchange Rates: Crash Course Economics. YouTube Video.
- Difference Between Micro and Macro Economics (with examples), YouTube Video.

Attributions

This chapter compiles content from various Open Educational Resources (OER). For details, please refer to the Attributions page.

CHAPTER 4: GLOBAL BUSINESS

CHAPTER PREVIEW

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.

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.

Learning Objectives

After studying this chapter, you should be able to:

1. Use the concepts of absolute and comparative advantage to explain why nations participate in international trade.
2. Evaluate the economic impacts of the concepts of balance of trade and balance of payments on world trade.
3. Distinguish between the various opportunities available to businesses operating internationally, including importing and exporting, licensing and franchising, contract manufacturing and outsourcing, strategic alliances, and joint ventures.
4. Identify the characteristics of various types of international business organizations, including foreign direct investments, subsidiaries, mergers, and multinational companies.
5. Recognize how economic and legal differences between countries create challenges to successful business dealings.
6. Use Hofstede's Cultural Dimensions to describe how cultural differences between countries create challenges to successful business dealings.
7. Discuss the various initiatives designed to reduce international trade barriers and promote free trade.

4.1: WHY DO NATIONS TRADE?

Globalization refers to the economic and social integration between countries and the increased flow of goods, services, and people across borders.

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 4.1: The Expanded Circular Flow Model. Therefore, it makes sense to learn more about how globalization works.

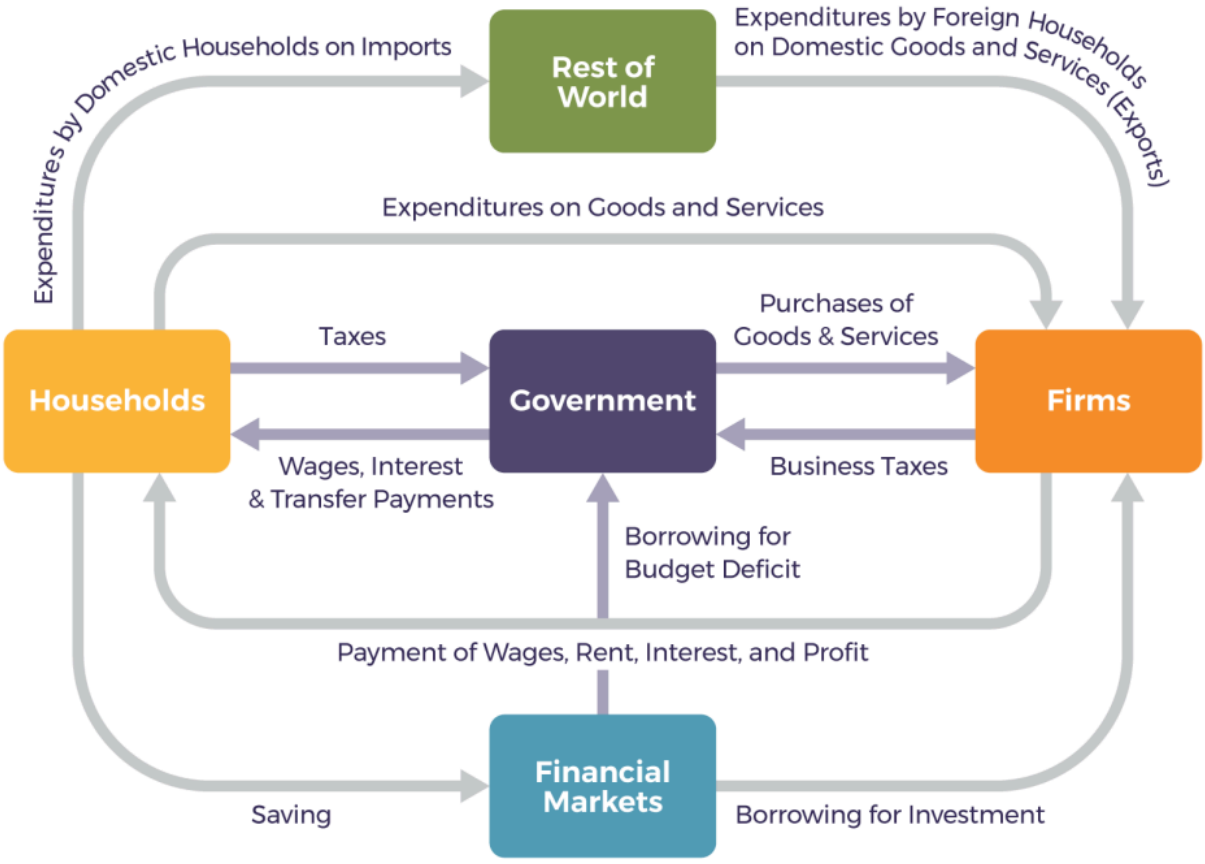


Figure 4.1: The expanded circular flow—Firms, government, households, financial markets, rest of the world. [See image description.]

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, creates jobs, and boosts 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? This is 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%.* [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

1. WTO. (n.d.). World Trade statistics 2023: Key insights and trends. World Trade Organization.

2. WTO. (2024). Chapter III: World trade and economic growth, 2022-23 [PDF]. In *World Trade statistical review 2023*. World Trade Organization.

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

3. Trading Economics. (n.d.). *Canada exports*.

4. Trading Economics. (n.d.). *Canada exports by category.*

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 costs are 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). Seven 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 × $7 per day equals $1,750—it is the cost, perhaps, of a decent vacation. If the opportunity cost were described as "a nice vacation" instead of "$7 a day," you might make different choices.

Opportunity Cost and Societal Decisions

Opportunity cost also comes into play with societal decisions. 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 in the United States:

- 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 travellers are relatively highly paid business people, conservative estimates set the average "price of time" for air travellers 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. Clearly, the opportunity costs of waiting time can be just as substantial as costs involving direct spending.

Media Attributions

"Figure 4.1: The Expanded Circular Flow: Firms, Government, Households, Financial Markets, Rest of the World" is adapted from Chapter 4: Business in a Global Environment in Introduction to Canadian Business, © Business Faculty from Ontario Colleges and eCampusOntario Program Managers, licensed under CC BY-NC-SA.

Image descriptions

Figure 4.1

A flowchart depicting economic interactions between different sectors: Rest of the World is at the centre top; on the middle level is Households, Government, and Firms; Financial Markets is at the centre bottom of chart.

Each entity is represented by a colored box with grey arrows illustrating the flow of economic activities between each entity.

"Households" interacts with "Government" through "Taxes" and receive back "Wages, Interest & Transfer Payments," Households also interact with "Firms" via "Expenditures on Goods and Services"

"Firms" deal with "Government" via "Business Taxes" and receive back "Purchases of Goods & Services," "Firms" also deal with "Households" by "Payment of Wages, Rent, Interest, and Profit."

"Financial Markets" interact with "Households" through "Saving" and provide "Payment of Wages, Rent, Interest, and Profit" to "Government" and "Borrowing for investment" to "Firms."

The "Rest of the World" receives through "Expenditures by Domestic Households on Imports" from Households and sends "Expenditures by Foreign Households on Domestic Goods and Services (Exports)" to "Firms."

[back to figure]

4.2: 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 the 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.[1] Between 1980 and 2008, Canada recorded a positive trade balance every year, with the exception of 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 4.2). The United States remains the country's biggest trading partner.[2] 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.

1. Statistics Canada. (2024, May 9). *Canadian international merchandise trade: Annual review 2023.*

2. Trading Economics. (n.d.). *Canada balance of trade.*

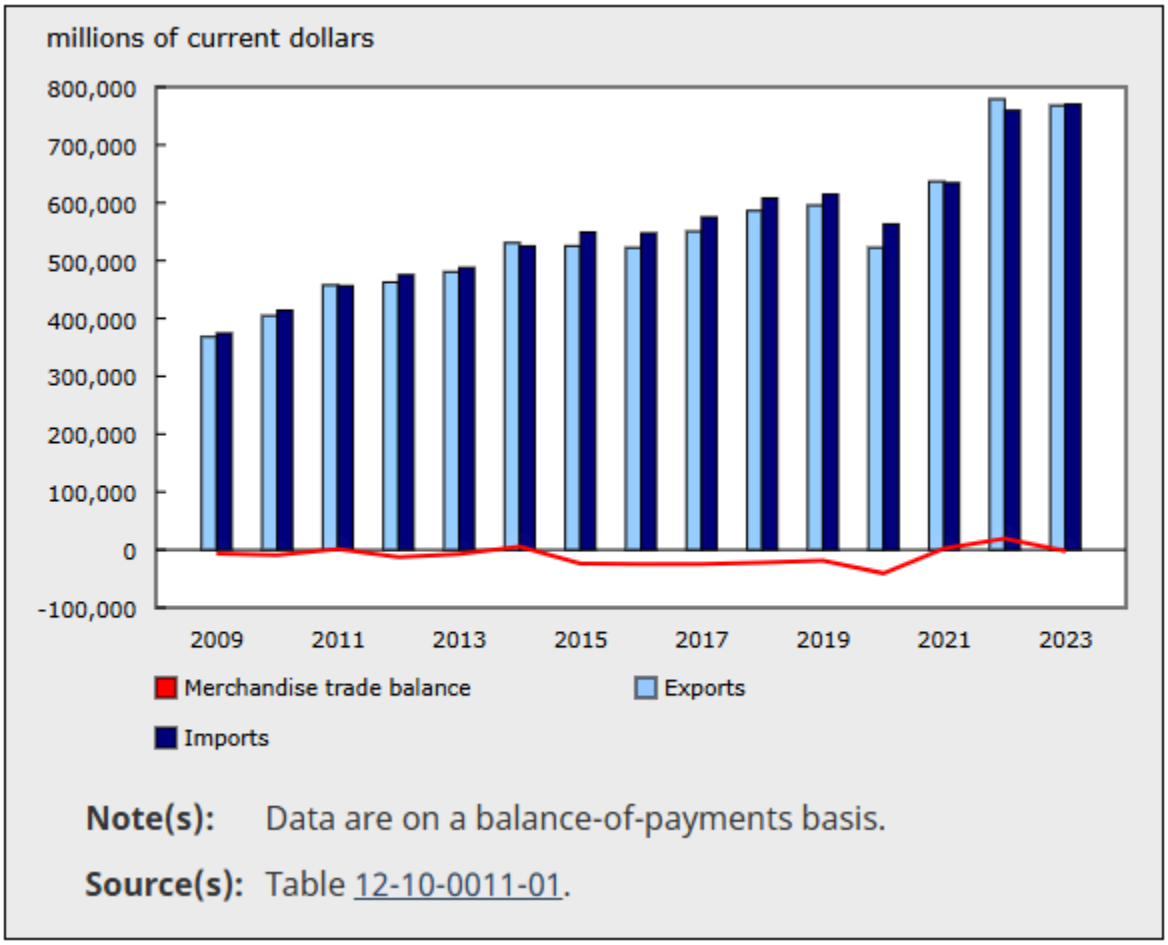


Figure 4.2: Exports and imports stabilize in 2023. [See image description.]

Deficits

A **national deficit** occurs 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".[3]

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, in fact, that many Japanese travelled 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 a number of 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.[4]

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.[5]

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

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3. 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*.

4. Anonymous. (n.d.). *Why are prices in Japan so damn high?* The Japan FAQ.com.

5. Boutique Japan. (2024, June 7). *Is Japan expensive?*

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 unfavourable balance of payments can negatively affect the stability of a country's currency. Canada has experienced unfavourable balances of payments since the turn of the century, which has forced the government to cover its debt by borrowing from other countries.

The national debt is the combined debt of all three levels of government in Canada: federal, provincial, and territorial. The debt is held by a variety of entities, including the Canadian public, foreigners, banks, trust and loan companies, and insurance companies. The balance of payments is comprised of three accounts: the current account, the capital account, and the financial account. In 2023, the current account of the Government of Canada posted a $17.8 billion deficit, up $7.4 billion compared with 2022. [6] The increase in the deficit was largely due to the trade in goods balance going from a surplus of $19.7 billion in 2022 to a deficit of $1.8 billion in 2023.[7]

Below are a few interesting facts about who owes money to whom:

- 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.[8]
- As of 2024, Pakistan owed China $26.6 billion for money borrowed for infrastructure and energy projects.[9]
- 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 has exceeded its income for most years, and the U.S. has not had a budget surplus since 2001.[10]
- Japan, China, the United Kingdom, Belgium, and Luxembourg own the most U.S. debt, in that order.[11]

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6. IMF Data Access. (2025, January 23). *Balance of payments and international investment position statistics (BOP/IIP) – Balance of payments: Current, capital and financial accounts for Canada.*
7. Statistics Canada. (2024, February 28). *Canada's balance of international payments, fourth quarter 2023*.
8. Lim, J. (2021, January 4). *China still owes Canada $371 million in decades-old debt*. Ipolitics
9. The Economic Times. (2024, August 28). *These countries owe the most debt to China, is yours one of them?*
10. Word Population Review. (n.d.). *National debt by country/countries with the highest national debt in 2024.*
11. Word Population Review. (n.d.). *National debt by country/countries with the highest national debt 2024*.

Media Attributions

Figure 4.2: Exports and imports stabilize in 2023. (Source: Statistics Canada, based on Table 12-10-0011-01, 2024, May 9. Reproduced and distributed on an "as is" basis with the permission of Statistics Canada.), © Statistics Canada, licensed under Statistics Canada Open license.

Image Descriptions

Figure 4.2

A bar and line graph with a vertical axis representing millions of current dollars, ranging from -100,000 to 800,000 and a horizontal axis showing the years from 2009 to 2023.

A red line represents the merchandise trade balance, which fluctuates slightly above and below zero.

Dark blue bars represent imports while lighter blue bars indicate exports. The value of imports and exports are similar, but imports are consistently higher in most years, except 2014 and 2022. The graph indicates a general increase in both exports and imports over time, with slight fluctuations in the trade balance line.

Notes below the graph are

- Note(s): Data are on a balance-of-payments basis.
- Source(s): Table 12-10-0011-01.

[back to figure]

4.3: 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 the bottled waters Evian and Fiji from their sources in the French Alps and the Fiji Islands respectively for resale in U.S. supermarkets.[1] 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 U.S. soybean exports.[2]

A few reasons why companies may engage in importing include:

- Importing to reduce costs, as importing may be more affordable than producing the same product locally.
- Importing new products before competitors in an attempt to become a leader in the industry.
- Importing non-core products allows businesses to focus on their specialties. For instance, a company might specialize in manufacturing brake pads for cars while relying on other companies or countries to supply the remaining car parts.
- Importing increases competition for domestic products. Companies may import products from other

1. Fine Waters. (n.d). *Evian*; Fine Waters. (n.d). *FIJI Water*.

2. USDA. (2024). *U.S. soybean exports in 2023.*

countries to compete with other businesses selling domestic products.

A few reasons why companies may engage in exporting include:

- Exporting can help a company reach new markets or expand in existing markets, and increase sales and profits.
- Exporting can spread business risk by diversifying into multiple markets instead of one domestic market.
- Exporting can improve a company's competitiveness against both domestic and international competitors.
- Exporting can lead to enhanced innovation and the acquisition of new skills.
- Exporting can help boost a company's profile and credibility.
- Exporting may allow a company to take advantage of trade agreements with reduced trade barriers.
- Exporting can help a company manage seasonal product use and market fluctuations.
- 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



Star Wars Lego licensing

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-flavoured 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 into a licensing agreement with a Japanese company that allows your licensee to manufacture coffee-flavoured 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.

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 actually 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.[3]

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.[4]

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, the attraction is not only a large pool of knowledge workers but also significantly lower wages.

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.

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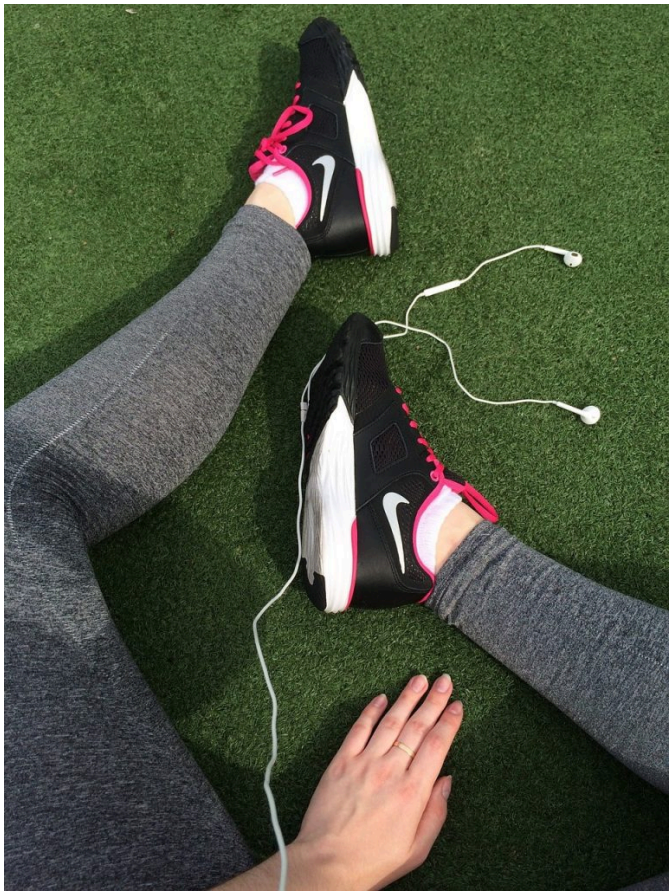
3. Franchise Company. (n.d.). *International franchising.*

4. Gereffi, G., & Frederick, S. (2010). *The global apparel value chain, trade and the crisis: Challenges and opportunities for developing countries.* Policy Research Working Paper 5281. World Bank Group.

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 in order 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 given below:

- 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.[5]

- 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 production equipment and machinery. 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.[6]

Non-equity strategic alliance is when two companies share resources and proprietary information. An example of this is between SkipTheDishes and restaurants across Canada to offer food delivery services. Restaurants do not share long-term goals or proprietary information with SkipTheDishes. The relationship is primarily transactional. Restaurants gain access to a delivery platform and customer base, while SkipTheDishes expands its offerings.

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 4.1 for a comparison of the key differences between strategic alliances and joint ventures.

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5. Escott, I. (2023, September 7). *Strategic partnership types, benefits, & how to find partners.* Respona

6. Tesla. (2014, July 31). *Panasonic and Tesla sign agreement for the Gigafactory* [Press Release]. Global Newswire.

Table 4.1: 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

Media Attributions

"Lego, Stormtrooper, Cycling image." by aitoff, used under the Pixabay license.

"Sports, Nike, Sneakers image" by Abiris, used under the Pixabay license.

4.4: TYPES OF INTERNATIONAL BUSINESS ORGANIZATIONS

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 set up 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 in fact subsidiaries of foreign firms. Gerber Products, for example, is a subsidiary of the Swiss company Novartis, while H Mart stores

in Ontario and British Columbia are Korean-themed grocery stores belonging to the Hanahreum Group, which is a Korean-American supermarket chain headquartered in New Jersey, USA.

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.[1]

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, which is characteristic of FDI.

Following the acquisition, Flipkart operated as a subsidiary of Walmart, meaning Walmart owned the company while Flipkart continued to function under its own brand and managed the local market. The deal

1. Mishra, A. (2023, June 20). *Analysis of the Walmart-Flipkart deal.* AK.

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.[2]

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 endeavour. 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 4.2 for a comparison of the key differences between strategic alliances, joint ventures, and mergers.

2. Agence France-Presse. (2018, May 10). Walmart buys 77% stake in Flipkart: Key reasons why the mega deal matters. *Hindustan Times*.

Table 4.2: Key differences between a 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 eleventh year in a row, with almost $648 billion in revenue in 2024. Walmart also has the most employees of any company in the world.[3] 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.[4]

Some MNCs standardize their products globally, while others adapt their products to the local region in

3. Fortune staff. (n.d.). Fortune Global 500 ranking 2024. *Fortune*. https://fortune.com/ranking/global500/

4. Nakata, H. (2024, March 8). IBM's tech advances are driven by leadership and collaboration. *The Japan Times*.

which they operate. 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, which creates considerable additional costs; in addition, 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 travellers who can immediately appreciate what they're getting wherever they acquire it.[5]

Here are a few examples of product standardization in foreign markets:[6]



Red Bull parachute

- Sporting manufacturers, such as Nike and Adidas, retain global standardization across global markets with strict branding, marketing, and product themes that remain 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 involves modifying the product—and potentially its pricing and promotional strategies—to align with local cultural norms and legal requirements. MNCs supplement their mainstream product line with products designed for local markets.

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5. UX24/7. (2022, December 29). *Product adaptation in foreign markets (with examples)*.

6. UX24/7. (2022, December 29). *Product adaptation in foreign markets (with examples)*.

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.[7]
- 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.[8]
- Domino's Pizza changed its topping preferences for local diners. They played to the popular diets of seafood and fish in Asia and curries in India.[9]
- 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.[10]
- 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 lower-income 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.[11]

Self-Check Exercise: Tour of McDonald's

Multinational corporations (MNCs) are located all over the world. Review each image and try to guess which country the McDonald's restaurant is located in. Hover your mouse over the image to get the answer.

7. Sakurada. (2021, February 24). *Unique Coca-Cola flavours in Japan*. Go With Guide
8. UX24/7. (2022, December 29). *Product adaptation in foreign markets (with examples)*.
9. UX24/7. (2022, December 29). *Product adaptation in foreign markets (with examples)*.
10. UX24/7. (2022, December 29). *Product adaptation in foreign markets (with examples)*.
11. UX24/7. (2022, December 29). *Product adaptation in foreign markets (with examples)*.

An interactive H5P element has been excluded from this version of the text. You can view it online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=148#h5p-7

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:[12]



Coca-Cola, so refreshing!

- The creation of 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 and 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.
- Adherence to 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 by meeting consumer preferences.

12. Pettinger, T. (2019, May 30). *Multinational corporations: Good or bad?* Economics Help.

- 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 the available 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, thereby 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.[13]
- 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.[14]
- 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.[15]
- MNCs are frequently criticized for repatriating their profits to their home countries rather than

13. Pettinger, T. (2019, May 30). *Multinational corporations: Good or bad?* Economics Help.

14. Pettinger, T. (2019, May 30). *Multinational corporations: Good or bad?* Economics Help.

15. More, H. (2024, November 24). Criticism of multinational companies. The Fact Factor.

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.[16]

- 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.[17]

Media Attributions

"Parachuting, Red bull, Chute image" by WikimediaImages, used under the Pixabay license.

"Drink, Soda, Glasses image" by stevepb, used under the Pixabay license.

16. More, H. (2024, November 24). Criticism of multinational companies. The Fact Factor.

17. More, H. (2024, November 24). Criticism of multinational companies. The Fact Factor.

4.5: THE IMPACT OF CULTURE AND POLITICS ON GLOBAL BUSINESS

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.

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 behaviours 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 intellect measured by traditional intelligence quotient tests. Review this article, "Increase Your Cultural Intelligence," for some tips on improving your cultural intelligence. Take this Cultural Intelligence Quiz if you wish to know whether or not you have a high CQ.

What Is Culture?

There is no consensus among scholars of different disciplines on the definition of culture.

Social psychologist Greet Hofstede defined culture as the programming of the human mind by which one group of people distinguishes itself from another group. [1] But according to anthropologist Edward B. Tylor,

1. The Culture Factor Group. (2019, February). *What do we mean by "culture"?*

"culture or civilization, taken in its wide ethnographic sense, is that complex whole which includes knowledge, belief, art, morals, law, custom, and other capabilities and habits acquired by man as a member of society". [2]

In general, sociologists define culture in two ways: *nonmaterial* and *material*. The nonmaterial aspect of culture is defined as values and beliefs shared by a group of people. In contrast, material culture consists of things made by humans, ranging from buildings and clothing to arts and literature. Emile Durkheim, a French sociologist, believes that both material and nonmaterial cultures hold society together. [3] Sociologists consider culture to be the production of social order and norms, which play an important role in how members of a society function, cooperate and interact with each other.

For the purpose of this text, we will define culture as a system of collective programming (values and norms) shared by a group of people, which, when taken together, determines a society's way of living.

Culture, as a system of values and norms, guides the social behaviour of people and serves as the foundation of social structure. Therefore, ignorance of cultural differences can result in a negative return on investment or weak market share, legal challenges, termination of contracts, or even lead to outright business failure.

Values

Values are shared ideas of what a group considers good or bad, right or wrong. People adopt values from the groups they belong to. For example, loving animals is a value that individuals get from the group to which they belong. Some social groups will not let dogs inside the house or touch them, while others will prosecute someone for being unkind to dogs. Furthermore, helping others, being honest, and saving the environment are all examples of values that people derive from their groups. Values play a strong role in the development of one's personality and behaviour. They vary from one place to another and from one culture to another. [4]

Norms

Norms are social rules and guidelines that define appropriate behaviour in a specific situation.[5] Norms can be divided into two categories:

- **Mores** (formal norms) are written rules which support social institutions such as public schools, the healthcare system, the military, etc. These norms exist in all societies.

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2. As cited in Logan, P. M. (2012, July). *On culture: Edward B. Tylor's Primitive Culture, 1871*. Branch.

3. Cole, N. L. (2019, August 2). *So, what is culture, exactly?* ThoughtCo.

4. Conerly, T. R., Holmes, K., & Tamang, A. L. (2021). *Introduction to sociology (3rd ed.)*. OpenStax.

5. Cole, N. L. (2018, August 27). What is a norm? Why does it matter? Thought Co.

- **Folkways** (informal norms) are unwritten routine conventions of everyday life learned through socialization; therefore, members of the same group of people show consistency in their behaviour. Examples of informal norms are dress codes, good social manners, rituals, etc. [6]

Cultural Dimensions Theory

To better understand differences in cultural values and business etiquette, organizations can refer to the cultural dimensions theory, which was developed by a Dutch social psychologist, Geert Hofstede. Hofstede divides cultural differences across countries into *six* dimensions: power-distance index, collectivism vs. individualism, uncertainty avoidance index, femininity vs. masculinity, short-term vs. long-term orientation, and restraint vs. indulgence. Hofstede's cultural dimensions are used in multiple areas, including business dealings and communication. [7]

1. *The Power Distance Index* explains to what extent members of society tolerate power and inequality. A high power index describes a culture where inequality and power differences are accepted, and there is high respect for authority. A low power index, on the other hand, indicates that a culture believes in power distribution and participatory decision-making. [8]
2. *Collectivism vs. individualism* describes whether a basic social unit is "individual" or "group." In a society where the basic social unit is an individual, the emphasis is on individual rights and achievements. However, a society based on collectivism places importance on the well-being of a group and values loyalty and relationships. [9]
3. *Uncertainty Avoidance Index* shows how uncertainties and unusual situations are dealt with by the members of a society. A high certainty avoidance index indicates a low tolerance for risk and uncertainty. These societies implement strict rules and regulations to reduce uncertainty and risk. A low certainty avoidance index indicates that the tolerance for risk and uncertainty is high. Individuals in these societies embrace changes and uncertainties and feel comfortable with unstructured situations.
4. *Femininity vs. masculinity* – this dimension explores how societies balance assertiveness and nurturing roles. In masculine cultures, traits like competitiveness, ambition, and material success are highly valued, leading to a focus on achievement and performance. Conversely, feminine cultures prioritize

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6. Crossman, A. (2019, October 4). *Folkways, mores, taboos, and laws: An overview of core sociological concepts*. ThoughtCo.

7. Coleman, L., King, T. & Turner, B. (2025, May 22). *Competent Communication: 2.2 Understanding Cultural Differences*. LibreTexts.

8. Nickerson, C. (2023, October 24). *Hofstede's cultural dimensions theory & examples.* Simply Psychology.

9. Pitt Law Online Blog. (2023, August 22). *Cultural differences in international business.* University of Pittsburgh School of Law.

relationships, quality of life, and caring for others, emphasizing cooperation and social welfare. This dimension helps explain variations in social norms, workplace dynamics, and educational approaches across different cultures.

5. *Short-term vs. long-term orientation* describes the extent to which a society plans for the future. A long-term-oriented society values sustainable growth, savings, and long-term achievements over short-term success. A short-term-oriented society focuses more on the present than the future, emphasizing quick results and short-term success.
6. *Restraint vs. indulgence* refers to the extent to which a society tends to fulfill its desires. Indulgence indicates that a society enjoys life and is more likely to spend money on luxury. Restraint indicates that the members of a society are more likely to limit themselves to absolute necessities and spend money on more practical needs.

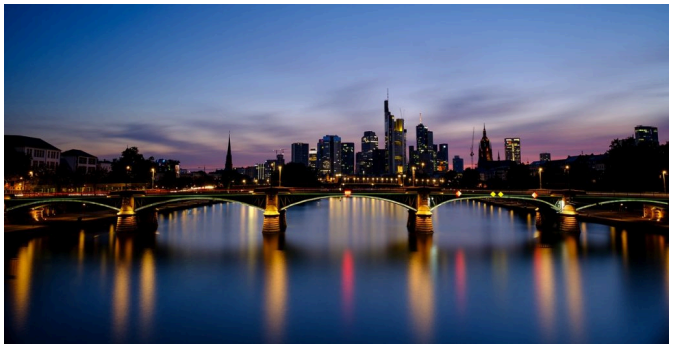
Issues To Address in Cultural Literacy

Differences in Communication

Verbal Communication

In many countries, English is not widely spoken. The larger population, which is usually the market you want to tap, speaks the local language. 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".

Non-verbal Communication

What is more important in communication is the non-verbal language, which is harder to determine. For example, business professionals in the Netherlands prefer to communicate only the essentials, while Italians like to build relationships and have friendly communication. Some nations like direct eye contact during business meetings, while others find direct eye contact intimidating. Other examples of non-verbal communication include physical distance, such as bowing.[10]

High- 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, favouring 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 the 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.

10. Pitt Law Online Blog. (2023, August 22). *Cultural differences in international business.* University of Pittsburgh School of Law.

Business Etiquette

Before meeting with their business counterparts from another country, it is recommended that organizations do some research about basic business etiquette and be as prepared as possible. For example, when meeting with business professionals from the U.S. or Canada, a firm handshake, good eye contact and keeping a proper distance are in order. On the other hand, if the meeting is with business leaders from Russia or Brazil, for example, be prepared for at least three kisses on the cheeks. Being considerate of workdays and holidays is also important when scheduling business meetings. Different countries have different work weeks. For example, most traditionally Christian countries have Saturdays and Sundays as non-working days. Still, in Judaism, the sabbath falls on Fridays and Saturdays, so the "weekend" days in Israel are different.

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.

Negotiation

As the most delicate part of business, negotiation is an art and requires strong social skills, even when dealing with people from the same culture. Adding cultural differences can make it even more difficult. However, studying other cultures, especially applying Hofstede's Cultural Dimensions Theory, can be very handy when preparing for negotiations with business parties from other countries.

Managing Culturally Diverse Teams

With the globalization of production and services and companies operating around the world, having to manage culturally diverse teams is inevitable.

Diversity is great for bringing different perspectives and creative ideas to a project and can help solve

problems faster and better; however, managing diverse teams can also be challenging.[11] Acknowledging differences, making an effort to listen to and understand team members, showing respect and empathy, providing clear expectations right from the beginning and being transparent in explaining those expectations are some of the strategies managers use to address challenges associated with diverse teams. [12][13]

Organizations with managers and workers who have high cross-cultural literacy are more agile. These organizations can quickly and easily adapt to different processes, capture new opportunities, and respond to changes across diverse markets.

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.

Let's compare Canadian and Filipino cultures using Hofstede's six dimensions of culture.[14][15] If you are interested, you can visit Country Comparison Bar Charts to find scores for various countries.

1. **Power Distance**

- **Canada**: Canada has a relatively low Power Distance score of 39, indicating a society that values equality and minimizes hierarchical differences. Canadians tend to expect equal treatment and open communication between different levels of society and organizations.
- **Philippines**: The Philippines has a high Power Distance score of 94, reflecting a society that accepts and expects significant inequalities in power and wealth. Hierarchical

11. Taras, V., Baack, D., Caprar, D., Jiménez, A. & Froese, F. (2021, June 9). *Research: How cultural differences can impact global teams.* Harvard Business Review.

12. Marzullo, D. (2022, June 16). *How to respect cultural differences when managing a global team*. Trinet

13. Brett, J.M., Behfar, K.J. & Kern, M. (2006). *Managing multicultural teams.* Harvard Business Review.

14. The International Business Center. (n.d.). Geert Hofstede Cultural Dimensions—Canada.

15. The International Business Center. (n.d.). Geert Hofstede Cultural Dimensions—The Philippines.

structures are deeply ingrained, and authority is respected and seldom questioned.

2. **Individualism vs. Collectivism**

- **Canada**: With a high Individualism score of 80, Canada is an individualistic society where personal achievements and individual rights are highly valued. People are expected to look after themselves and their immediate family.
- **Philippines**: The Philippines scores low on Individualism (32), indicating a collectivist culture. Filipinos prioritize strong family ties and group loyalty, often placing the needs of the community above individual desires.

3. **Masculinity vs. Femininity**

- **Canada**: Canada has a moderate Masculinity score of 52, suggesting a balanced society where both competitive and cooperative values are appreciated. Gender roles are less rigid, and quality of life is considered important.
- **Philippines**: The Philippines has a Masculinity score of 64, indicating a society that values competitiveness, achievement, and success. Traditional gender roles are more pronounced, with a focus on male dominance in various aspects of life.

4. **Uncertainty Avoidance**

- **Canada**: Canada scores 48 on Uncertainty Avoidance, showing a moderate tolerance for ambiguity and uncertainty. Canadians are relatively open to new ideas and changes, and they value flexibility.
- **Philippines**: The Philippines has a high Uncertainty Avoidance score of 44, indicating a preference for structured situations and clear rules. Filipinos tend to avoid uncertainty and ambiguity, favouring stability and predictability.

5. **Long-Term Orientation**

- **Canada**: Canada has a low Long-Term Orientation score of 36, suggesting a culture that values traditions and the present. Canadians are more focused on short-term results and quick achievements.
- **Philippines**: The Philippines scores 27 on Long-Term Orientation, indicating a similar preference for maintaining traditions and focusing on short-term goals. Filipinos value

respect for tradition and fulfilling social obligations.

6. **Indulgence vs. Restraint**

- **Canada**: Canada has a high Indulgence score of 68, reflecting a society that allows relatively free gratification of basic and natural human desires related to enjoying life and having fun. Canadians tend to value leisure and personal happiness.
- **Philippines**: The Philippines scores 42 on Indulgence, indicating a more restrained culture. Filipinos are more likely to control their desires and impulses, often due to social norms and cultural expectations.

These dimensions highlight the key cultural differences between Canada and the Philippines, providing insights into their societal values and behaviours.

Artificial Intelligence Disclosure: *The comparison of Canadian and Filipino cultures using Hofstede's six dimensions of culture was created with the assistance of Microsoft Copilot, an AI-based tool designed to generate text based on user inputs. In accordance with the current guidance from Creative Commons, the content created using Generative AI tools is shared under a CC1.0 Universal Deed.*

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4.6: THE GLOBAL BUSINESS ENVIRONMENT

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.

World Bank Group Income Categories as of July 1, 2024:[1]

- High income— $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.

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.

1. Metreau, E., Young, E., & Eapen, S. (2024, July 1). *World Bank country classifications by income level for 2024-2025.* World Bank Blog.

The scale and direction of these shifts, however, vary a great deal between world regions. Here are some regional highlights:[2]

- 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 in 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 they 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.[3] 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 travelled abroad, you already have personal experience with the impact of exchange rate movements.

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2. Metreau, E., Young, E., & Eapen, S. (2024, July 1). *World Bank country classifications by income level for 2024-2025.* World Bank Blog.

3. Sawe, B. (2018, June 28). *How many currencies exist in the world?* World Atlas.

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 the 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 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.[4]

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 favours 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.

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 2023,

4. Owen-Jones, J. (2022, July 21). *The Netherlands is making work from home a legal right: What does this mean for Dutch companies?* Deel.

Canada scored 76/100 on the Corruption Perceptions Index, ranking 12/180 countries. Top-scoring countries also tend to have well-functioning justice systems, stronger rule of law and political stability.[5]

Ranked as the least corrupt country was Denmark, ranking 1/180 and scoring 90/100, followed by Finland, New Zealand, Norway, Singapore, and Sweden. The most corrupt countries include Somalia, ranked 180/180, followed by Venezuela, Syria, South Sudan, Yemen, and North Korea.[6]

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 a 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

5. Transparency International. (n.d.). *Our work in Canada.*

6. Transparency International. (n.d.). *Corruption perceptions index.*

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 production costs 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 own 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 the 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 ($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).[7] 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 favourably 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 embargos.

Tariffs

Tariffs are taxes on imports that increase the price of foreign-made goods, making them less competitive. They also serve as a source of revenue for governments. For instance, in March 2025, President Donald Trump announced that the U.S. would maintain a 25% tariff on imported steel products to bolster the American steel industry and protect U.S. steel manufacturers.

7. OEC. (2022). *Canada.*

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. Let us also assume that 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 imposed restrictions and allowed the import of only 18,000 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 4,000 to 9,000 pounds. At the same time, at the price of $1.89 per pound, the country's demand for mangoes declines to 25,000 pounds. In this example, the restriction helps domestic mango farmers increase production and decrease demand through price regulation.[8]

Another example is the wheat export quota implemented by India, which 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.[9]

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.

8. WallStreetMojo. (2023, September 28). *Quota.*

9. WallStreetMojo. (2023, September 28). *Quota.*

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 defence, 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.

Media Attributions

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4.7: REDUCING INTERNATIONAL TRADE BARRIERS

Many organizations work to remove barriers to trade, 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, computers, and Wisconsin cheese. Reluctantly, the administration lifted its tariff on steel.[1]

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)** is governed by and accountable to its 191 member countries. It has three critical missions: furthering international monetary cooperation, encouraging the expansion of trade and economic growth, and discouraging policies that would harm prosperity. It 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.[2]

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

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1. Becker, E. (2003, November 11). U.S. tariffs on steel are illegal, the World Trade Organization says. *New York Times.*

2. Sanders, B. (1998, July/August). *The International Monetary Fund is hurting you.* Third World Traveller.

Kingdom), the World Bank has committed $128.3 billion in loans, grants, and guarantees to partner countries and private businesses.[3] 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: CUSMA 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 favours 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—CUSMA and the European Union.

CUSMA

CUSMA is a free trade agreement between Canada, the United States, and Mexico, which 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 CUSMA took effect on July 1, 2020, replacing NAFTA.[4] 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 7.4).

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

3. IFC. (n.d.). *World Bank Group 2023 summary results.*

4. Lobosco, K. (2020, July 1). *NAFTA is officially gone. Here's what has and hasn't changed.* CNN.

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.



The Euro

A key step toward unification occurred in 1999, when most (but not all) EU members agreed to abandon their own 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.[5]

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.[6]

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 other more recently negotiated trade agreements, including the following:

- The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) took 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 the 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.[7]
- The Canadian-European Union Comprehensive Economic and Trade Agreement (CETA), through which 98% of Canadian goods are now duty-free, and eventually, 99% of tariffs will be eliminated.[8]

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5. Directorate-General for Communication. (n.d.). *Benefits: What are the benefits of the euro?* European Union.

6. Seth, S. (2023, December 4). *Why these European countries don't use the Euro.* Investopedia.

7. Manning, R. (2020, July 7). *Global and regional trade* systems. Atlantic Council.

- Canada started negotiations with Mercosur (a regional trade bloc in South America made up of the following countries: 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.[9]

Other Free Trade Agreements and Blocs

Nations have grouped together to form regional trade associations for their own benefits, including the following:

- ASEAN Free Trade Area;
- The Asia-Pacific Economic Cooperation (APEC);
- The Economic Community of Central African States;
- The Gulf Cooperation Council; and
- BRICS – Brazil, Russia, India, China and South Africa.

CAREER SPOTLIGHT

Iva Bravic Millereau



Iva Bravic Millereau

As the CEO of Re.VITYL Wellness, a small yet global company, Iva Bravic Millereau's company, specializes in delivering bespoke and branded products to luxury hotels and department stores around the world. Iva

8. Government of Canada. (2021). *Canada-UK trade continuity agreement explained.*

9. MercoPress. (2023, April 10). *Mercosur, Canada to resume trade deal talks.*

has worked across three continents and nine countries. This diverse experience has taught her that "cultural intelligence" is the cornerstone of successful global leadership.

Understanding and appreciating cultural differences is not just important; it is essential. Leaders must be attuned to the norms, values, and communication styles of various cultures to adapt their leadership approach effectively. Each region and culture has its own unique nuances, norms, and etiquette that must be kept in mind and understood to successfully negotiate and conduct business internationally.

"Doing business globally is one of the most exhilarating adventures any business professional can embark upon. My first role as a buyer for the Hudson Bay Company (HBC) took me on a buying trip to China in 2004, and it was during my early twenties that I truly grasped the incredible interconnectedness of our world. Every region has honed unique skills and strengths: France excels in luxury goods, Switzerland is renowned for its chocolates and watches, Canada leads in tech and forestry industries, and China is at the forefront of technology and electric vehicles.

Successful companies understand the power of leveraging this global expertise to drive innovation and growth. When global businesses support each other, we not only propel our individual successes but also contribute to a more sustainable and prosperous world for everyone. The future is bright, and the opportunities are boundless for those who embrace the global marketplace with an open mind and a collaborative spirit!"

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"Figure 4.3: Map of European Countries in the European Union" is is reused from Members of the European Union, © 2022 by Kindred Grey, licensed CC BY 4.0, which includes "Special member state territories in Europe and the European Union" from Wikimedia Commons.

Image Descriptions

Figure 4.3

A map of Europe, with countries within the European Union highlighted in burnt orange. These countries include Austria, Italy, Belgium, Latvia, Bulgaria, Lithuania, Croatia, Luxembourg, Cyprus, Malta, Czechia, Netherlands, Denmark, Poland, Estonia, Portugal, Finland, Romania, France, Slovakia, Germany, Slovenia, Greece, Spain, Hungary, Sweden, and Ireland.

[back to figure]

CHAPTER REVIEW

Key Takeaways

- **Globalization** is the process of increasing economic and social integration between countries, and the increased flow of goods, services, and people across borders.
- A country 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.
- A **comparative advantage** exists when a country can produce a product at a lower opportunity cost compared to another nation.
- An **opportunity cost** indicates what must be given up to obtain something that is desired.
- 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.
- A nation's **deficit** is when a government spends more money than it receives in revenue over a period of time.
- **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.
- **Importing** is buying products overseas and reselling them in one's own country.
- **Exporting** is selling products to another country.
- 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.
- 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.

- 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.
- 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.
- **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
- A company that operates in many countries is called a **multinational corporation (MNC).**
- **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.
- **Culture** is a system of collective programming (values and norms) shared by a group of people, which, when taken together, determines a society's way of living.
- **Values** are shared ideas of what a group considers good or bad, right or wrong. Individuals get values from groups in which they are members.
- **Norms** are social rules and guidelines that define appropriate behaviour in a specific situation.
- The **cultural environment** is the set of factors that shape the way people interact with each other and their physical and social environment.
- **Geert Hofstede** divides cultural differences across countries into six dimensions: power-distance index, collectivism vs. individualism, uncertainty avoidance index, femininity vs. masculinity, short-term vs. long-term orientation, and restraint vs. indulgence. Hofstede's cultural dimensions are used in multiple areas, including business dealings and communication.
- **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.
- **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.

- **Trade controls** are policies that restrict free trade, and governments continue to control trade.
- **Tariffs** are taxes on imports.
- A **quota** imposes limits on the quantity of a good that can be imported over a period of time.
- 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** 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).
- The **World Trade Organization (WTO)** encourages global commerce and lower trade barriers, enforces international rules of trade, and provides a forum for resolving disputes.
- **CUSMA** is a free trade agreement between Canada, the United States, and Mexico, which replaced the NAFTA free trade agreement.
- Today, the **European Union (EU)** is a unique economic and political union between 27 countries that have eliminated trade barriers among themselves

Download the "Chapter in Review" for Chapter 4: Global Business [PDF].

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.** With the growth of online businesses comes 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 a business take to protect its 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. What is the Global 500 ranking based on? 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 another 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. **CUSMA.** What does the CUSMA 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 CUSMA 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, explain which countries are members, and provide 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/understandingbusiness/?p=160#h5p-8

Concept Review: International Business (Dialogue Cards)

Review this chapter's concepts by going through their definitions.

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/understandingbusiness/?p=160#h5p-9

Additional Resources

- Trading Economics: Canada's Exports by Category
- Trading Economics: Canada's Exports: Summary
- International Trade Statistics
- Statistics Canada: Canadian International Merchandise Trade: Annual Review 2023

- Trading Economics: Canada, World Bank Development Indicators
- International Monetary Fund
- WTO Explained. YouTube Video.
- USMCA Agreement. YouTube Video.
- Your 6-Step Guide to Starting and Import Export Business. YouTube Video.
- What is Globalization? Understand Our Interconnected World. YouTube Video.
- HSBC Funny Culture Ads (Subway, Bart, Golf), YouTube Video.

Attributions

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CHAPTER 5: ETHICS AND SOCIAL RESPONSIBILITY

CHAPTER PREVIEW

This chapter covers how businesses can act responsibly and ethically. You'll learn about CSR, the UN Sustainable Development Goals, Caroll's CSR Pyramid, and legal duties. We'll also discuss business ethics, preventing unethical actions, and maintaining honesty and integrity in your professional life.

Learning Objectives

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

1. Define Corporate Social Responsibility (CSR) and how it aligns with the United Nations Sustainable Development Goals (SDGs).
2. Discuss how corporate social responsibility (CSR) impacts various stakeholders such as owners, investors, managers, employees, customers, and communities.
3. Explain the four parts of Caroll's Corporate Social Responsibility Pyramid.
4. Differentiate between CSR and ESG frameworks in assessing corporate sustainability.
5. Describe business ethics and explain what it means to act ethically in business.
6. Illustrate how an individual can avoid an ethical lapse, and why one should not rationalize when making decisions.
7. Identify the things you can do to maintain your honesty and integrity in a business environment.

5.1: CORPORATE SOCIAL RESPONSIBILITY (CSR) AND THE UN'S SUSTAINABLE DEVELOPMENT GOALS (SDGS)

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 endeavours, 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 the 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 5.1 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,

1. Fernando, J. (2024, March 6). *What is CSR? Corporate social responsibility explained.* Investopedia.

health, equality and job opportunities, while tackling climate change and working to preserve our oceans and forests.[2]



Figure 5.1: United Nations 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 the people and the planet by 2030. Businesses, non-profits, NGOs, and educational institutions have developed their own frameworks to address the SDGs and meet individual targets. Sustainable development can be part of a company's corporate social responsibility program.

On September 14, 2022, Patagonia's founder, Yvon Chouinard, announced that he was transferring ownership of the company, valued at $3 billion, to a trust and nonprofit dedicated to fighting climate change.

2. United Nations (n.d.). *Sustainable development goals (SDGs)*.

Rather than selling the company or going public, Chouinard ensured that all profits (about $100 million annually) would be used to combat environmental issues. This is an example of how a business such as Patagonia enabled progress on these SDG goals, serving to benefit society while reinforcing its brand and long-term mission. [3]

The Principles for Responsible Management Education (PRME)

The Principles for Responsible Management Education (PRME) is a United Nations-supported initiative established in 2007 to integrate sustainability into business and management education. Built on Seven Principles, PRME encourages academic institutions to equip future leaders with the skills to balance economic, environmental, and social goals while advancing the SDGs.

The UN Global Compact is the world's largest corporate sustainability initiative, calling on businesses to align their strategies with universal principles on human rights, labour, the environment, and anti-corruption. Aligned with the UN Global Compact, PRME's vision is to drive a global movement for responsible management education, while its mission is to transform business education and develop decision-makers who contribute to sustainable development. [4] As the largest organized relationship between the UN and management education, PRME has over 800 signatory institutions worldwide committed to responsible leadership. Since becoming a signatory in 2020, Conestoga College, School of Business has worked to embed the PRME Principles and SDGs across the School and, as of 2024, has won three awards for its reporting and engagement. Check out the School's Sharing Information on Progress Reports to learn more.

Attribution: © Anna Hohenadel, Accreditation Consultant, Conestoga College. Used under a Creative Commons Attribution – Non-commercial Share Alike License.

3. Chouinard, Y. (n.d.). *Earth is now our only shareholder*. Patagonia.

4. PRME. (n.d.). *About PRME.*

Media Attributions

Figure 5.1: United Nations Sustainable Development Goals. © United Nations, All Rights Reserved. Used according to the SDG Guidelines AUG 2019 Final. The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or Member States.

5.2: 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 the 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 inflating revenue and assets, Lehman Brothers repurchasing agreements, Bernie Madoff's Ponzi scheme, Satyam 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, (a Canadian equivalent to the 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 October 2024, the Ontario rate is $17.20 per hour. By law, employers must also provide certain benefits—Canada Pension Plan or CPP (retirement funds), employment insurance or EI (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. These include the Canada Labour Code, provincial and territorial health and safety legislation, and occupational health and safety regulations. 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.[1]

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, when 16,342 injuries were reported.[2]

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.

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. **Customer rights** include:

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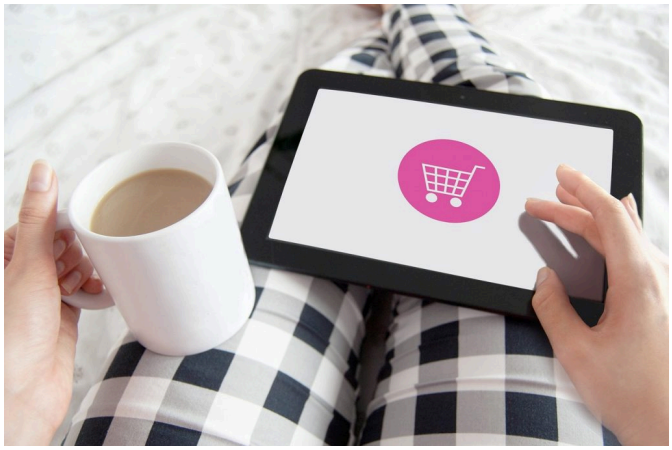
1. CCOHS. (2024). *Health and safety legislation in Canada*.
2. Employment and Social Development Canada. (2024). *2022 annual report — Occupational injuries in the Canadian federal jurisdiction*. Government of Canada.

- *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 information 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.



A 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? The cooling-off period covers the following areas:

- purchase of a product or service from a door-to-door salesperson (also called a direct agreement)
- advance payment to join a fitness club or gym (also called a personal development contract)
- purchase of a newly-built condo (under the Condominium Act)
- getting a payday loan (under the Payday Loans Act)
- purchase of a timeshare

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 **corporate philanthropy**. Some donate a percentage of sales or profits to worthwhile causes. 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.[3]

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.[4]

These companies not only contribute financially but also engage in programs that benefit the broader community through direct action, volunteerism, and supporting local organizations.

Media Attributions

"Shopping, Online, E-commerce image" by justynafaliszek, used under the Pixabay license.

3. Loblaw Companies Limited. (n.d.). *Helping Canadians live life well.*

4. Telus. (n.d.). *Funding meaningful change*.

5.3: CARROLL'S CORPORATE SOCIAL RESPONSIBILITY PYRAMID

Carroll's Pyramid is a widely used CSR framework for situating corporate social responsibility that categorizes a company's responsibilities as a whole in four easy-to-understand levels. 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 5.2 provides Archie 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 5.2: Carroll's Corporate Social Responsibility Pyramid. [See image description.]

Economic Responsibilities

Economic 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.[1]

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

1. benevity. (n.d.). *The four main types of corporate social responsibility your business should consider (and why)*.

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 business stakeholders.

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 of businesses making profits to societies. 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 among investors.[2]

Legal Responsibilities

Businesses have a **legal responsibility** 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 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.

2. Hayes, A. (2022, December 29). *Corporate citizenship: What it means, five stages, and examples.* Investopedia.

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 offence.

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
- Sale 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.

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.[3]

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.[4] 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.

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

3. Employment and Social Development Canada. (n.d.). *Overview of policy issues and background—Employment Equity Act Review*. Government of Canada.

4. Government of Canada. (n.d.). *Canadian Human Rights Act*. Justice Laws Website.

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 honour 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:

- Perform in a manner consistent with expectations of societal mores and ethical norms
- Recognize and respect new or evolving ethical/moral norms adopted by society
- Prevent ethical norms from being compromised in order to achieve business goals
- Be good corporate citizens by doing what is expected morally or ethically
- Recognize 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.

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 responsibilities, 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.

Media Attributions

"Figure 5.2: Carroll's Corporate Social Responsibility Pyramid" is adapted from Article: Carroll's Corporate

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"Taxes, Tax evasion, Police image" by Alexas_Fotos, used under the Pixabay license.

Image descriptions

Figure 5.2

A triangle is divided into four horizontal sections, each labelled with different levels of responsibilities, forming a hierarchy. The base section is the widest, labelled "Economic Responsibilities," with the notes "Be Profitable" at left and "Required by society" at right.

The second section is "Legal Responsibilities," with the notes "Obey laws and Regulations" at left and "Required by society" at right.

The third section is "Ethical Responsibilities," with the notes "Do what is just and fair. Avoid harm" at left and "Expected by society" at right.

The topmost section is "Philanthropic Responsibilities," with the notes "Be a good corporate citizen" at left and "Desired by society" at right.

[back to figure]

5.4: THE CSR AND ESG FRAMEWORK

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 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. 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 for a wide variety of market participants when creating or assessing sustainable investment products.[1]



Power plant emitting gases

There has been an increasing focus on corporate sustainability and reporting, and a question often asked is what is the difference between CSR and ESG? CSR and ESG are different frameworks that companies use to assess sustainability. In short, CSR may be used as an internal framework, while ESG provides a measure of

1. FTSE Russell. (n.d.). *Overview.*

assessment for investors. It could be argued that ESG is currently overtaking CSR as a measure of sustainability in the corporate world.[2]

There are several Canadian organizations that provide advice and guidance to businesses about how to become better corporate citizens. The Canadian Business for Social Responsibility (CBSR) is one such organization. CBSR is a non-profit organization that helps Canadian companies integrate sustainability and social responsibility into their core strategies and operations. [3]

Companies like LSEG Data & Analytics headquartered in the United Kingdom offers ESG data and analytics on thousands of companies globally that is widely used by Canadian financial institutions and asset managers.

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 that the program distracted consumers from the need for Shell to reduce fossil fuel usage directly. Following these criticisms, Shell Canada discontinued the program in 2023.[4]

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.[5]

These cases highlight the importance of transparency and verifiable claims in corporate environmental initiatives.

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2. Byrne, D. (n.d.). *What is the difference between CSR and ESG?* Corporate Governance Institute.

3. CBSR. (n.d.). *About—CBSR.*

4. Meyer, C. & Syed, F. (2024, February 9). *What do 'clean' and 'green' actually mean? Canadian watchdog receives complaints about environmental claims by Shell, RBC, and Enbridge*. The Narwhal.

5. Rabson, M. (2023, October 16). *Suncor Energy CEO says company committed to decarbonization, is accused of greenwashing.* Global News.

Media Attributions

"Power plant, Cooling tower, Coal-fired power station image" by denfran, used under the Pixabay license.

5.5: 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 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 parents but by society, culture, and in some cases by 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 personal 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".[1] 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 personal 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

1. Gostick, A., & Telford, D. (2003, April 3). *The integrity advantage: How taking the high road creates a competitive advantage in business* (3rd ed.). Gibbs Smith.

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 own interests above those of your company, its owners, and its workers. If you're in business, you obviously 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 that's difficult or personally disadvantageous.

5.6: 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 ecological 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.[1] 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 because it 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 behaviour. How, for example, would you answer questions like the following?



Making ethical decisions may take some thought

- Is it okay 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?

Obviously, the types of situations are numerous and varied. Fortunately, we can break them down into a few

1. Mayers, N. (2017, September 26). *What are ethical lapses?* Bizfluent.

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 totalling $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.[2]

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.[3]

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.

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2. 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.

3. Chee, F. Y. (2023, July 14). *Illumina hit with record $476 million EU antitrust fine over Grail deal.* Reuters.

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. A conflict can exist, for example, when an employee's own 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. Obviously, 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 personal interests don't conflict with the company's.

By the same principle, 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 to a friend or 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 make a deposit on 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 centred on two company directors who were also presidents of the company, who failed to inform the majority shareholders about a potential acquisition interest from Industrial Alliance Insurance. Instead, the directors 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.[4]

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.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=184#oembed-1

Transcript for "Ethics" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: BrainPop. (2017, August 23). *Ethics* [Video]. YouTube.

4. Mathieu, J. & Weir, O. (2023, December 16). *Important takeaways for D&O duty of loyalty and contractual compensation from the recent Supreme Court decision*. McCarthy Tetrault.

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 really 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 for the purpose of influencing 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.[5]

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).[6]

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

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5. Bronskill, J. (2022, January 8). *Overseas Canadian firms being probed for corruption: RCMP.* Global News.

6. Bose, N. (2019, June 20). *Walmart will pay $282 million to settle a seven-year global corruption probe.* Reuters.

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.[7]

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.[8]



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, Charles 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.[9]

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7. NWC. (n.d.). *What is a whistleblower?*

8. BLG. (2020, August 13). *OSC's first whistleblower reprisal case is a cautionary tale for companies.*

9. House, B. B., Johnston, P. L., Noller, L. M., & Hansfield, T. P. (2023, October 24). *A review of recent whistleblower developments.* Foley.

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.[10]

Despite significant financial investment in its whistleblower protection framework, Canada has failed to adequately 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.[11]

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.[12]

These examples highlight how whistleblowing plays a critical role in exposing corporate and institutional malpractice, as well as the legal and systemic barriers faced in both Canada and the U.S.

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"Selective Focus Photography of Woman Using Whistle" by Luis Quintero, used under the Pixabay license.

10. U.S. Department of Labour. (2023, June 28). *The US Department of Labour settled a whistleblower case against Delaware salvage yard, which wrongly terminated an employee for reporting safety concerns*.

11. Center for Free Expression. (2023, March 1). *European court decision highlights Canada's third-world status on whistleblower protection*.

12. Pearlman, S. (2023, December 19). *Top 10 whistleblowing and retaliation events of 2023.* Proskauer.

5.7: ENCOURAGING ETHICS IN THE WORKPLACE

When organizations are ethical and practice CSR, consumer and employee rights will be considered and handled with integrity and ethics. For employees, health and safety, privacy, wages, and benefits, along with the right not to be harassed or discriminated against, are all-important ethical considerations.

A 2018 survey found that 38% of employees consider "ethical standards" to be the first or second-most important workplace attribute. [1] 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.

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.[2]

Key factors in creating an ethical business environment include: [3]

- *Strong leadership and ethical governance.* Effective ethical practices start at the top. Establish a comprehensive code of ethics that clearly defines acceptable behaviour and guides decision-making in areas such as anti-corruption, diversity, privacy, and fairness. A dedicated board of directors should oversee accountability 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.

1. Heinig, I. (2024, December 16). *Employee happiness: What do employees value most in their job?* Clutch.

2. 3BLMedia. (2024). *100 Best Corporate Citizens 2024*.

3. Purertos, E. (2025, March 18). *What are ethical business practices and why are they important?* Sustainable Business Toolkit.

- *Compliance with 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 the Occupational Health and Safety Regulations. For businesses operating internationally, compliance with international standards like ISO 26000 (Social Responsibility) or the UN Global Compact further strengthens ethical credibility. For example, Bombardier's governance policies and Code of Ethics help the company maintain high standards of corporate governance. [4]
- *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." [5]
- *Commitment to social responsibility.* Support community development through volunteering, donations, and partnerships. Prioritize environmental sustainability by reducing carbon emissions, managing waste responsibly, and investing in eco-friendly initiatives. Loblaw's efforts to combat food waste and reduce plastic use are strong examples of corporate sustainability.
- *Proactive risk management.* Provide ongoing training for employees on ethical decision-making and compliance requirements. Implement clear social media and data privacy policies. Conduct internal audits to ensure adherence to policies. Actively engage with stakeholders to understand and address their concerns.

By focusing on these elements, businesses can build a reputation as ethical organizations while ensuring long-term success and trust from stakeholders.

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

4. Bombardier. (n.d.). *Government relations & advocacy*.

5. Motley Fool. (2021, May 25). *Shopify's Shavonne Hasfal-McIntosh talks diversity and belonging*.

protections under the Canadian Human Rights Act (CHRA), provincial human rights codes, and the Canada Labour Code for federally regulated workplaces.[67]

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.[8] Indigenous women and members of the LGBTQ+ community are disproportionately affected, with much higher likelihoods of experiencing sexual violence.[9] 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.[10]

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 and 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:

- People from diverse backgrounds bring new talents and fresh perspectives to an organization, typically enhancing creativity in the development of new products.
- By more accurately reflecting the demographics of the marketplace, a diverse workforce improves a

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6. Employment and Social Development Canada. (2023). *Harassment and sexual violence in the workplace.* Government of Canada.
7. Employment and Social Development Canada. (2023). *Workplace harassment and violence prevention regulations—What we heard.*
8. Statistics Canada. (2021). *In 2020, one in four women and one in six men reported having experienced inappropriate sexualized behaviours at work in the previous year.* The Daily.
9. Women and Gender Equality Canada (2024). *Sexual violence: It's not just "how things are."* Government of Canada.
10. Employment and Social Development Canada. (2024). *2022 annual report —Taking action against harassment and violence in workplaces under Canadian federal jurisdiction.* Government of Canada.

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.[11]

So, J&J wasn't at fault. However, CEO James 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.

11. Kaplan, T. (1998). *The Tylenol crisis: How effective public relations saved Johnson & Johnson.* The Pennsylvania State University.

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.[12]



In 1982, cyanide-laced Tylenol capsules killed seven people, triggering a nationwide scare and transforming drug packaging safety standards forever.

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:

- **Define the problem:** How to respond to the tampering case without destroying the reputation of the Tylenol brand.
- **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.
- **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.
- **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.
- **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.

12. Weber, Y. (1999, June 13). *The CEO saves the company's reputation and products.*

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)?

- I'm always ethical.
- I'm mostly ethical.
- I'm somewhat ethical.
- I'm seldom ethical.
- 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?[13]

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.

13. Maxwell, J. C. (2003). *There's no such thing as "Business Ethics": There's only one rule for making decisions.* New York: Warner Books.

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, 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.

- Is the action illegal?
- Is it unfair to some stakeholders? (Also, if it were happening to you, then would it be unfair?)
- If I do it, will I feel bad about it?
- Will I be ashamed to tell my family, friends, coworkers, or boss?
- 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 decision— 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.[14]

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:[15]

- My behaviour isn't really illegal or immoral. Rationalizers try to convince themselves that an action is okay 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.
- 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.
- 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.
- 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.

14. 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.

15. Gellerman, S. W. (1986, July). *Why "good" managers make bad ethical choices.* Harvard Business Review on Corporate Ethics.

CAREER SPOTLIGHT

Katarina Milicic



Katarina Milicic

As a Sustainability Projects and Reporting Officer at a post-secondary institution, Katarina Milicic focuses on advancing sustainability through operational improvements, engagement programs, and academics. Throughout her career, she has led initiatives focused on sustainable development, climate action, and corporate responsibility, always aiming to integrate sustainability into the core of how businesses operate.

In her current role, Katarina works closely with staff, leadership, and faculty to find commonalities to drive real change across campuses. She is responsible for research, reporting, and project implementation on various areas of sustainability, including waste, energy, transportation, and food. In the reporting aspect of her role, she tracks progress against various strategies and goals, such as waste diversion and greenhouse gas (GHG) emissions, to see where environmental impact and cost can be reduced while enhancing social well-being. Her day-to-day work is grounded in the fact that sustainability provides an opportunity to build a more resilient, self-sufficient, and equitable future for the campus community and beyond.

"Sustainability is a collective effort, and it begins with transparency, commitment, and collaboration. With over a decade of experience in sustainability, I've seen how embedding principles of sustainability and the Sustainable Development Goals (SDGs) can have a positive economic, social, and environmental impact on organizations. I believe that integrating corporate social responsibility into an organization's strategy ensures future resiliency but also enriches the health and well-being of all stakeholders."

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"Tablet, Medication, Pills image" by jhenning, used under the Pixabay license.

CHAPTER REVIEW

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** include 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 decisions 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 characteristic.

Download the "Chapter in Review" for Chapter 5: Ethics and Social Responsibility [PDF].

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 other). 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 greenwashing. Why does greenwashing happen? How can consumers identify greenwashing? Discuss with the class and/or the professor.
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., 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 trending issues? What is the Canadian Code of Volunteer Involvement? List a couple organizations in your 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/understandingbusiness/?p=190#h5p-10

Additional Resources

- What is the Triple Bottom Line? YouTube Video.
- Ethics Defined. YouTube Video.
- Prominent Canadian Whistleblowers
- A Timeline of U.S. Whistleblowing
- Canada's Best Diversity Employers
- America's Best Employers for Diversity
- The World's Biggest Accounting Fraud Scandals
- What is Corporate Social Responsibility (CSR)? HBS Online, YouTube Video.
- What are the Types of Corporate Social Responsibility? How to Choose the Right One. YouTube Video.
- Corporate Social Responsibility Explained: Why it's Important for your Business. YouTube Video.

- How to Develop a Corporate Social Responsibility Strategy: Solving Business Problems. YouTube Video.
- Sustainable Development Goals (SDGs): Why They Matter for Business Today. YouTube Video.
- Corporate Social Responsibility vs Corporate Philanthropy: What's the Difference? YouTube Video.
- How to Measure Your CSR Program's Performance and Impact. YouTube Video.
- Corporate Social Responsibility and Diversity in the Modern Workplace: Building Better Businesses. YouTube Video.
- Get Better Employee Engagement by Following These 8 Simple Steps: Best Practices for 2022 and Beyond. YouTube Video.
- Top 7 Benefits of Corporate Social Responsibility (CSR) for Any Business. YouTube Video.

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CHAPTER 6: ENTREPRENEURSHIP AND BUSINESS STRUCTURE

CHAPTER PREVIEW

This chapter will cover different types of entrepreneurs, business structures, planning tools, and resources to help new businesses.

Learning Objectives

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

1. Discuss why entrepreneurship is important to society.
2. Summarize the factors contributing to the success or failure of small businesses.
3. List four characteristics or traits an entrepreneur should have.
4. Distinguish between a social entrepreneur, a necessity entrepreneur, and an opportunity entrepreneur.
5. Outline the steps involved in creating a new business.
6. Compare the four types of business structure: sole proprietorship, partnership, corporation, and co-operative.
7. Explain what a business plan is and how it is used.
8. Express how the business model canvas is used.
9. List the types of support an entrepreneur might obtain for starting a new business.

6.1: 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, such as 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:

- *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.
- *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.
- *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.
- *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.

- *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 endeavours to unlock their full potential.



An entrepreneur pitching their business concept.

"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]

"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.

1. ByJus. (n.d.). *Entrepreneurship—Types of entrepreneurship*.

2. Harappa. (2021, April 19). *What is entrepreneurship? Meaning, features, need & examples.*

Additionally, increased employment and higher earnings contribute to better national income in the form of higher tax revenue and higher government spending."[3]

Media Attributions

"Woman in Gray Coat Holding White Printer Paper" by RDNE Stock project, used under the Pexels license.

3. FastAdvices. (2020, July 10). *How does entrepreneurship affect the standard of living?* Retrieved from https://yourfastadvices.com/how-entrepreneurship-affects-the-standard-of-living/

6.2: 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:

- *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.
- *Financial management.* Successful businesses monitor expenses, optimize pricing, and secure adequate funding to manage operations and growth. Example: A café that maintains detailed cash flow records and controls costs can reinvest profits into expansion.
- *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.
- *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.
- *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 for which there is no market.[1]

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:

- *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 competition may struggle to attract customers.
- *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.
- *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.
- *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.
- *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 100 staff members 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

1. Blair, N. (2024, December 31). *Small business statistics in Canada.* Retrieved May 27, 2025, from https://madeinca.ca/small-business-statistics-canada/

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.[2]

Below are some statistics about small businesses in Canada:[3]

- 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 show 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 were about 3.5 million entrepreneurs and 901,794 small businesses in Canada in October 2021.

2. Blair, N. (2024, December 31). *Small business statistics in Canada.* Retrieved May 27, 2025, from https://madeinca.ca/small-business-statistics-canada/

3. Blair, N. (2024, December 31). *Small business statistics in Canada.* Retrieved May 27, 2025, from https://madeinca.ca/small-business-statistics-canada/

6.3: ENTREPRENEURIAL TRAITS AND KEY MOTIVATIONAL FACTORS

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:[1]

- 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 that it is being done accurately, and the investment should pay off.

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

- *Passion***.** Work ethic and passion fuel each other. Passion drives the motivation to stay disciplined, while a strong work ethic keeps progress steady. The reward is the priceless satisfaction entrepreneurs feel when their hard work pays off. [2]
- *Risk tolerance***.** Taking risks helps businesses stand out, especially in crowded markets. Even when risks

1. BDC. (2022, October 4). *How to become an entrepreneur.*

2. Walker, B. (2020, May 11). Six personality traits of successful entrepreneurs. *Forbes.*

don't pay off, the lessons learned can guide future decisions. Bill Gates once said, "To win big, you sometimes have to take big risks." His boldest move—leaving Harvard to start Microsoft—was driven by a vision of making personal computing accessible to everyone. At a time when computers were massive and exclusive, Gates imagined a future with a computer on every desk and in every home. That bold risk reshaped the world. [3]

- *Persistence***.** Successful entrepreneurs don't fear failure—they learn from it. Mistakes and setbacks are part of the journey, but persistence, curiosity, and a willingness to adapt are what drive progress. Growth comes not from avoiding failure, but from using it to move forward.[4]
- *Innovation***.** Innovation isn't innate—it's a mindset that can be developed. Many top startups succeed by reimagining existing products to meet evolving market needs. In today's competitive landscape, creativity is essential. Entrepreneurs who challenge conventional solutions often uncover the ideas that set their businesses apart.[5]

There are three characteristics of entrepreneurial activity:

- *Innovation:* Coming up with new ideas, pivoting and adapting when a consumer or economic environment changes.
- *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.
- *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

Some common motivational factors have been identified by 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-

3. Alfred, L. (2020, May 5). *12 characteristics & personality traits great entrepreneurs share.* Hubspot.

4. Miller, K. (2020, July 7). *10 characteristics of successful entrepreneurs.* Business Insights.

5. Walker, B. (2020, May 11). Six personality traits of successful entrepreneurs. *Forbes.*

third cited financial reasons.[6] Refer to Figure 6.1 below to view survey results for motivational factors that influence entrepreneurial success.

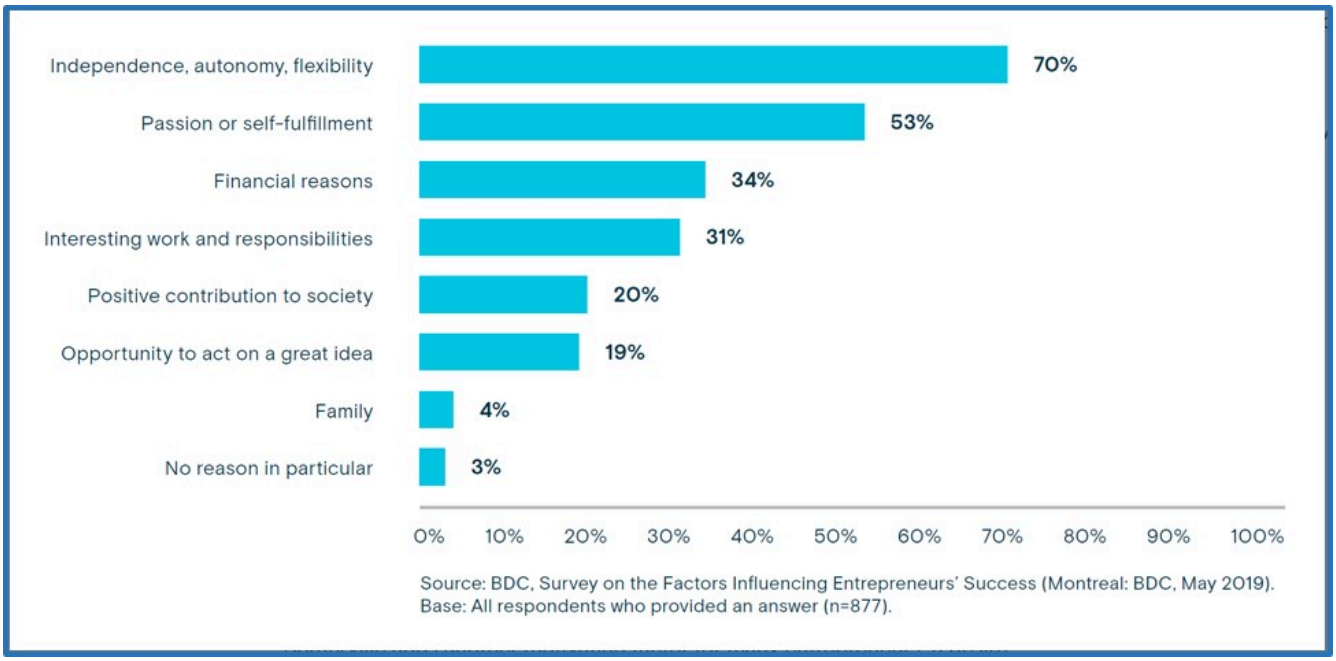


Figure 6.1: Motivational factors influencing entrepreneurial success (2019) from *How to Become an Entrepreneur.* [See image description.]

"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."[7]

Media Attributions

"Figure 6.1: Motivational factors influencing entrepreneurial success (2019)" from How to Become an Entrepreneur, © Business Development Bank of Canada, is used in this OER with permission from the Business Development Bank of Canada.

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6. BDC. (2022, October 4). *How to become an entrepreneur.*

7. BDC. (2022, October 4). *How to become an entrepreneur.*

Image descriptions

Figure 6.1

A horizontal bar chart of the different factors influencing entrepreneurs' success, with corresponding percentages indicating the proportion of respondents who cited that factor. The factors listed from top to bottom are: "Independence, autonomy, flexibility" at 70%, "Passion or self-fulfillment" at 53%, "Financial reasons" at 34%, "Interesting work and responsibilities" at 31%, "Positive contribution to society" at 20%, "Opportunity to act on a great idea" at 19%, "Family" at 4%, and "No reason in particular" at 3%. A percentage scale runs along the bottom from 0% to 100%. The following source is noted at the bottom of the chart: BDC, Survey on the Factors Influencing Entrepreneurs' Success (Montreal: BDC, May 2019). Base: All respondents who provided an answer (n=877).

[back to figure]

6.4: 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.[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.
- *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.
- *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.
- *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.
- *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.
- *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.
- *Imitator entrepreneurship.* People in this category use other people's business ideas but work to improve

1. Indeed Editorial Team. (2023, March 10). *The nine different types of entrepreneurship (with examples).* Indeed.

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.

- *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.
- *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 in order 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, and their efforts may have a local, national, or global impact. Social entrepreneurs are driven by purpose—whether it's fighting poverty, tackling climate change, or ending homelessness. But passion alone isn't enough. Building a sustainable venture still demands focus, structure, and strategy to create lasting impact.[2]

Social entrepreneurs—whether for-profit or non-profit—operate with a mission to drive positive change. Working under the banner of social enterprise, they tackle issues like poverty, healthcare access, women's empowerment, and community development. By reinvesting profits, securing grants, and mobilizing support, they influence institutions and governments to address unmet needs and spark lasting social transformation.[3]

Mark Marsolais-Nahwegahbow (Ojibwe) —Social Entrepreneur

"Entrepreneur Mark Marsolais-Nahwegahbow brought his background in Indigenous law, business,

2. Wirth, K. (2022, August 30). *12 Most Common Types of Entrepreneurs Explained.* LivePlan.

3. Wallstreetmojo Team. (2021, August 19). *Social entrepreneur.* WallStreetMojo.

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."[4]

What Is Social Innovation?

Watch 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.



One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=206#oembed-1

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.

4. Boyko, J. (2022, April 7). *Notable Indigenous entrepreneurs in Canada.* The Canadian Encyclopedia.

Source: Smith, M. A. (2022, June 19). *What is social innovation? How do you actually DO it (and change the world)?* [Video]. YouTube.

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."[5]

Necessity-driven entrepreneurs often start businesses after setbacks like job loss or illness. Though many would prefer stable employment, they turn to entrepreneurship as a way to share their skills or products with others. When traditional paths aren't available, building a business becomes the only way forward.

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 launched Rollasole in Bristol, U.K., after his girlfriend complained about walking home in heels. His solution? The first foldable shoe sold in vending machines—debuted in a local nightclub. Word spread, and soon Rollasole expanded online, in stores, and across vending machines. A chance meeting in Las Vegas with Ashley Ross sparked a

5. Miller, M. (n.d.). *The necessity entrepreneur — A path to freedom [updated]*. CareerPivot.

partnership that brought the brand to the U.S. market. [6] 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.[7]

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 true Canadian classic: Starting the day with Tim Hortons in hand.

Media Attributions

"A Person Holding Red and White Disposable Cup" by Hemil Dhanani, used under the Pexels license.

6. Rollasole. (n.d.). *About us.*

7. Restaurant Brands International. (2022, August 4). *Restaurant Brands International Inc. reports second quarter 2022 results.*

6.5: 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.

- *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?
- *Choose a business structure.* In Canada, there are three common types of business structures: sole proprietorship, partnership, and corporation. Be sure to review the pros and cons and specifics of each structure at the BDC's "How to start a business in Canada: The ultimate guide." 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. 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 for a partnership. However, partners usually have some type of contractual agreement among themselves that governs the sharing of revenues, expenses and tasks. A **corporation** is formed by incorporating a business. 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.[1]
- *Choose a business name.* Choosing a business name is more challenging than it seems. It needs to be clear, memorable, and—most importantly—available. Your name often shapes a customer's first impression, so choose wisely. Ask yourself: Does it reflect what I offer? Is it easy to remember? Is it unique enough to

1. BDC. (2025, January 13). *Your ultimate guide to starting a business in Canada.*

stand out?[2]

- *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."[3] Additional information on business plans is below.
- *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).
- *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). Licenses may also be required, for example, if you sell liquor or food products. You may also require insurance.
- *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. However, 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 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

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2. BDC. (2025, January 13). *Your ultimate guide to starting a business in Canada.*

3. Wirth, K. (2022, February 21). *What is a business plan? Definition and planning essentials explained.* LivePlan.

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.

- *Grow your business.* Launching your business is just the beginning. The first year is often the toughest—and when many businesses fail. You'll need to balance daily operations with long-term planning. This is the difference between working *in* the business and working *on* it. For guidance on early growth, visit the BDC's "Manage your growth" hub.[4]

4. BDC. (2025, January 13). *Your ultimate guide to starting a business in Canada.*

6.6: 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 proprietorships, 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, 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 own 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:

- 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, unlike 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 people. 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. Shareholders 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.[1] 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 own advantages and disadvantages. Some of the largest co-operatives in Canada include:[2]

- 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.

1. AllBusiness. (2016). *What are the costs of forming a corporation?* Retrieved from https://www.allbusiness.com/costs-of-forming-a-corporation-502-1.html

2. Toomer-McApline, A. (2023, August 7). *Co-ops ranked among Canada's top 50 'corporate citizens'*. Co-op News.

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 receive 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 6.1 for a comparison of the forms of business ownership.

Table 6.1: 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
Tax advantages	High	High	Low	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 own 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** 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.[3]

- *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.

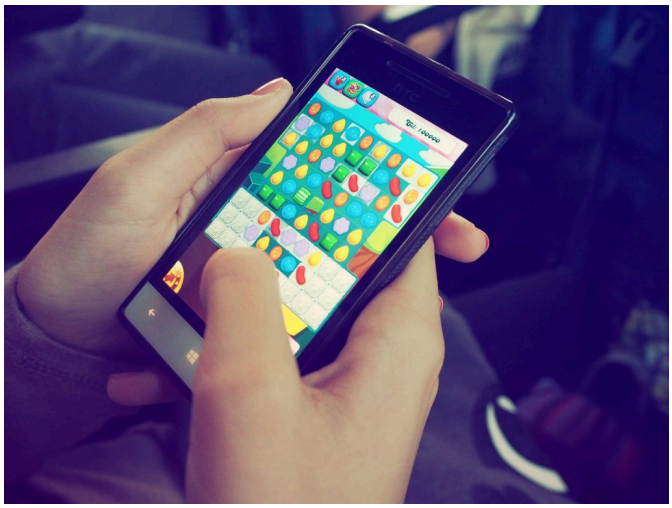
Buying or Merging with an Existing Business

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.

3. Rittenberg, J. (2024, April 17). How to start a franchise in 8 steps (2024 guide). *Forbes.*

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.[4]



Microsoft acquired Activision Blizzard in 2023.

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:[5]

- *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.
- *Gain horizontal integration.* A business strategy is one 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.
- *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 own personnel, a brand name, and other

4. Kenton, W. (2025, April 4). *Acquisition: Meaning, types, and examples.* Investopedia. Retrieved May 28, 2025, from URL https://www.investopedia.com/terms/a/acquisition.asp

5. Kenton, W. (2025, April 4). *Acquisition: Meaning, types, and examples.* Investopedia. Retrieved May 28, 2025, from https://www.investopedia.com/terms/a/acquisition.asp

intangible assets. This could help to ensure that the acquiring company will start off in a new market with a solid base.

- *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 own operations. Such a company might look for promising young companies to acquire and incorporate into its revenue stream as a new way to profit.
- *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.
- *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.
- *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).[6]

Companies may merge for a number of reasons, including:[7]

- *Increase market share.* Merging with another company may allow a company to gain a larger market share.
- *Access new technologies.* A company may seek a merger to gain access to new technologies, expertise, patents, or intellectual property.
- *Gain economies of scale.* By consolidating operations, a company can reduce redundancies and streamline processes, which can lead to improved profit margins.
- *Diversify.* A company can enter new markets or offer new products or services.
- *Blend cultural values.* A successful merger can lead to a more diverse and inclusive workforce.

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6. Schooley, S. (2023, November 8). *What you should know about company mergers.* Business News Daily.

7. Greenwich. (n.d.). *How do mergers and acquisitions work?*

- *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

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

Strategic Alliance

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 Indigo.

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.[8]

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.[9]

Below are a few advantages and disadvantages of joint ventures:[10]

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.[11]

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.[12]

Refer to Table 6.2 for key differences between strategic alliances and joint ventures.

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8. Hargrave, M. (2024, June 14). *Joint venture (JV): What is it, and why do companies form one?* Investopedia.
9. BDC. (n.d.). *Joint venture.*
10. BDC. (n.d.). *Joint venture.*
11. Suazo, R. (n.d.). *10 joint-venture examples you should know about.* Bundl.
12. Hargrave, M. (2024, June 14). *Joint venture (JV): What is it, and why do companies form one?* Investopedia.

Table 6.2: 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

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/understandingbusiness/?p=211#h5p-11

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"Candy crush, Device, Electronics image" by Hemil Dhanani, used under the Pixabay license.

6.7: BUSINESS PLAN

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."[1] "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."[2]

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.* The executive summary is a crucial component of a business plan, often completed last but read first. It provides a concise overview of the entire plan, typically limited to two pages. Its purpose is to capture the essence of the business and its goals, serving as a compelling elevator pitch to attract potential investors.[3]
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."[4]
3. *Market analysis.* The market analysis section identifies the target market and demonstrates the company's understanding of its customers and demand. It includes data on demographics, location, consumer behaviour, and market needs, supported by relevant statistics and sources that give an overview of the target market size.

1. BPlans. (2016, March 17). *What is a business plan?* [Video]. YouTube. Retrieved 1 April 2025 from https://youtu.be/FIoGLHT4wGE

2. Wirth, K. (2022, February 21). *What is a business plan? Definition and planning essentials explained.* LivePlan.

3. Indeed Editorial Team. (2025, March 4). *10 key business plan sections and why they're important.* Indeed.

4. Ferriolo, J. (2021, August 27). Seven sections your business plan should have. *Forbes.*

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.[5]
5. *Management plan.* The management plan outlines the company's legal structure, key management personnel, and human resource needs. It specifies staffing requirements, employee compensation, and any external professionals, such as lawyers, consultants, or architects, that the company will need. If the company intends to use the business plan to source funding from investors, it should also list the executive team and advisory board members.[6]
6. *Operating plan.* The operating plan outlines the company's physical and logistical needs, including facilities, equipment, labour, supplies, and inventory. More complex operations, such as manufacturing, require detailed plans covering custom infrastructure, raw materials, and supply chains. Simpler businesses, like home-based consultancies, may need less detail.[7]
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."[8]
8. *Financial plan and projections.* The financial plan outlines the company's budgeting and financial projections. It includes estimated costs for staffing, development, production, marketing, and other operations. Established businesses may provide financial statements and balance sheets, while startups should present forecasts, funding needs, and potential investors.[9]
9. *Appendix.* The appendix includes supplementary materials that support the business plan, such as financial statements, market research reports, or other documents that validate the plan's assumptions and projections. These additions enhance credibility and provide deeper insight for readers.[10]

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5. White, C. (2017, June 19). *What's a competitive analysis & how do you conduct one?* HubSpot
6. CFI Team. (n.d.). Corporate Finance Institute. *Business plan example and template.*
7. CFI Team. (n.d.). Corporate Finance Institute. *Business plan example and template.*
8. Indeed Editorial Team. (2025, March 4). *10 key business plan sections and why they're important.* Indeed.
9. Hayes, A. (2024, June 27). *Business plan: What it is, what's included, and how to write one.* Investopedia.
10. Indeed Editorial Team. (2025, March 4). *10 key business plan sections and why they're important.* Indeed.

Here is an example of a business plan for a hypothetical new product targeted toward Canadian seniors.

Business Name: SureFoot Solutions

Product: SureFoot Smart Walker

Executive Summary: SureFoot Solutions aims to enhance the mobility and safety of Canadian seniors with our innovative product, the SafeStep Smart Walker. This advanced walker is equipped with smart technology to provide real-time support, fall detection, and health monitoring, ensuring seniors can maintain their independence while staying safe.

Market Analysis: The senior population in Canada is rapidly growing, with the number of seniors aged 75 and older expected to increase by 111.2% between 2014 and 2034.[11] This demographic shift highlights the need for products that support aging in place and improve the quality of life for seniors. Common health issues among Canadian seniors include mobility challenges, chronic diseases, and the risk of falls.[12]

Product Description: The SureFoot Smart Walker is designed to address the mobility and safety needs of seniors. Key features include:

- **Fall Detection:** Sensors that detect falls and automatically alert emergency contacts.
- **Health Monitoring:** Integrated health monitoring for vital signs such as heart rate and blood pressure.
- **GPS Tracking:** GPS functionality helps locate seniors in case of emergencies.
- **User-friendly Interface:** Easy-to-use controls and a display screen for real-time updates.
- **Adjustable Design:** Customizable height and ergonomic handles for comfort.

Target Market: Our primary target market includes Canadian seniors aged 65 and older who experience mobility challenges or have a history of falls. Secondary markets include caregivers and family members seeking reliable safety solutions for their loved ones.

Marketing Strategy:

11. Mordor Intelligence. (2025). *Canada senior living market size and share analysis —growth trends and forecasts (2025 – 2030).*

12. Canada Life. (2024, September 19). *Common health issues in Canadian seniors*.

- **Partnerships:** Collaborate with healthcare providers, senior living communities, and pharmacies to promote the SureFoot Smart Walker.
- **Online Presence:** Develop a user-friendly website and leverage social media platforms to reach a wider audience.
- **Educational Workshops:** Host workshops and webinars to educate seniors and caregivers about the benefits of the SureFoot Smart Walker.
- **Testimonials:** Share success stories and testimonials from users to build trust and credibility.

Sales Strategy:

- **Direct Sales:** Offer the product through our website and partner retail stores.
- **Subscription Model:** Provide an optional subscription service for continuous health monitoring and emergency response.
- **Discounts and Promotions:** Offer discounts for bulk purchases and special promotions during senior-focused events.

Financial Projections:

- **Initial Investment:** CAD 500,000 for product development, manufacturing, and marketing.
- **Revenue Streams:** Product sales, subscription services, and potential partnerships with healthcare organizations.
- **Break-even Analysis:** Expected to break even within the first two years of operation, with projected annual revenue of CAD 1 million by the third year.

Conclusion: SureFoot Solutions is committed to improving the lives of Canadian seniors by providing innovative, reliable, and user-friendly mobility solutions. With the SureFoot Smart Walker, we aim to empower seniors to live independently and safely, while offering peace of mind to their families and caregivers.

Artificial Intelligence Disclosure: *The business plan for the SureFoot Smart Walker was created with the assistance of Microsoft Copilot, an AI-based tool designed to generate text based on user inputs. In accordance with the current guidance from Creative Commons, the content created using Generative AI tools is shared under a CC1.0 Universal Deed.*

6.8: 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.[1]

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.[2]

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.

- Customer segments
- Value proposition
- Channels
- Customer relationships
- Key activities
- Revenue streams
- Key resources
- Key partnerships
- Cost structure

1. CFI Team. (n.d.). *Business model canvas template.* Corporate Finance Institute.

2. Business Models Inc. (n.d.). *Business model canvas.*

Introduction to the Business Model Canvas

Watch 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.



One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=216#oembed-1

Transcript for "Introduction to the Business Model Canvas" Video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: Optima Training (UK) Limited. (2021, July 29). *Introduction to the business model canvas.* [Video]. YouTube.[/footnote]

6.9: SUPPORT FOR ENTREPRENEURS

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.[1] The Aboriginal entrepreneurship program (AEP) provides access to capital and business opportunities to Indigenous entrepreneurs and business owners in Canada.[2]

The Government of Canada 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 discover if there is any government support 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 centres and some business leaders' associations offer similar programs. The Government of Canada's Starting a Business website also provides information on 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 the Business Start Program (BSP) in Manitoba, the Youth Entrepreneurship Partnership Program in Ontario, Jeunes Promoteurs in Quebec, and the Canada Small Business Financing Program.

Some government programs specifically offer support to young entrepreneurs and entrepreneurs who are part of specific minority groups. For example, Futurpreneur Canada provides information on startup

1. Canada Energy Regulator. (2023, February 15) *Market snapshot: Clean energy projects in remote Indigenous and northern communities.*

2. Indigenous Services Canada. (n.d.) *Aboriginal entrepreneurship program: Access to business opportunities.* Government of Canada.

financing, mentorship, and resources for Canadians aged 18–39. The Black Entrepreneurship Program (BEP) aims to support Black entrepreneurs across Canada.

Business Development Bank of Canada (BDC)

The Business Development Bank of Canada (BDC) offers many tools and resources, as well as advice, to entrepreneurs and business owners. The bank supports small and medium-sized businesses in all industries and at every stage of growth with money and advice.[3]

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."[4]

Incubators and Accelerators

A **business incubator** is a specialized program that supports new businesses by offering low-cost office space, resources, and guidance. Startups usually apply to join and spend a set amount of time in the program to develop their ideas, learn from others, and reduce early costs.[5]

A **business accelerator** is a program that helps startups grow quickly by offering mentorship, funding

3. BDC. (n.d.). *About*.

4. Costa, D. (2025, April 18). *Crowdfunding*. Britannica Money.

5. Harper, J. (2025, January 28). *What is a business incubator, and how does it work?* *Indeed*.

(often in exchange for equity), and resources. Startups usually need a working product and team to apply. Programs typically last 3 to 6 months and focus on rapid development and scaling.[6]

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.

MIT

The MIT delta v accelerator is the capstone entrepreneurial experience for students at MIT.[7] 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.[8]

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 Canada, turning breakthrough ideas into products and services with global impact.[9]

District 3

District 3 Innovation Hub is a Montreal-based startup accelerator affiliated with Concordia University. It supports early-stage tech entrepreneurs through coaching, resources, and access to a collaborative innovation ecosystem. The hub focuses on helping founders validate ideas, build scalable ventures, and connect with industry and academic partners.

Futurepreneur

Futurpreneur Canada is a national non-profit organization that supports aspiring entrepreneurs aged 18–39. It provides up to $75,000 in startup financing, one-on-one mentorship, and business resources to help young

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6. Hubspot for Startups. (2023, January 16). *What is a business accelerator? Everything you need to know.* Hubspot.

7. Center for MIT Entrepreneurship. (n.d.). *MIT delta v.*

8. MIT REAP. (n.d.). *Innovation is a global game.* MIT Management Sloan School.

9. MaRS. (n.d.). *We help high-impact Canadian tech ventures succeed.*

Canadians start or buy businesses. Since 1996, it has helped launch over 18,700 businesses across the country, promoting inclusive and sustainable economic growth. Their internationally recognized mentoring program hand matches young entrepreneurs with a business expert from a network of more than 2,600 volunteer mentors.[10]

Conestoga College

The Conestoga Entrepreneurship Collective launched in 2019 with a mission to provide members of the college community with pathways to participation in the innovation ecosystem.[11] Students and alumni can engage in an experience that matches their skills, aspirations and definitions of success. They can start a new business, launch a freelance business or join a high-growth company as a B2B sales professional.

Program offerings include:

Venture Lab: A universal business incubator that supports founders with idea-stage and early-stage ventures across all sectors.

Venture Lab for Tech: A business incubator tailored specifically to the needs of founders with early-stage tech ideas. [12]

Venture Lab for Skilled Trades: A unique program that helps entrepreneurs in the trades start or build their own business over 15 weeks.[13]

Gig Lab: Canada's first and only business incubator for freelancers. The program focuses on monetizing professional skills. All freelancers who successfully complete the Gig Lab are invited to launch their business on the Conestoga Gig Marketplace.

Sales Lab: Canada's first and only incubator for B2B sales careers. The program focuses on

10. Futurepreneur. (n.d.). *About.*

11. If you are interested in one of the programs in the CEC, you can email the team at entrepreneurship@conestogac.on.ca or visit the Conestoga Entrepreneurship Collective website.

12. This project is funded in part through the Scale-Up Platform program, an initiative funded by the Government of Canada through the Federal Economic Development Agency of Southern Ontario (FedDev Ontario) and offered in partnership with Communitech.

13. This initiative is funded by the RBC Foundation as part of RBC's Future Launch initiative.

developing high-potential candidates for entry-level B2B sales jobs to fill demand and address a well-known hurdle for scaling companies.

Experience Ventures: Provides work-integrated learning experiences alongside real-world innovators to nurture entrepreneurial thinking.[14]

Spotlight Story

QuickCasa, co-founded by Stephen McCabe, an alumnus of the Business Administration Management program in 2017, harnesses artificial intelligence (AI) to generate personalized interactions for housing providers and uses cognitive AI scoring to understand the ideal requirements of individuals reaching out about a property. This streamlines engagement and pre-qualification processes for more efficient and tailored interactions with potential clients.

McCabe credits the guidance and expertise of their Venture Lab coach for making QuickCasa into a useful tool that is readily embraced by the target market.

> *"Venture Lab was very powerful in helping solidify what was a fluid idea into something that you can take to a product. The support is candid, it's frank, and it's designed to help founders move forward. Venture Lab isn't going to tell you that every idea you have is great. They're going to help you build an idea that can grow."*

Attribution: Text © Rose Mastnak, MBA, Director, Conestoga Entrepreneurship Collective. Used under a Creative Commons Attribution – Non-commercial Share Alike License.

14. This initiative is powered by the Hunter Hub for Entrepreneurial Thinking at the University of Calgary and funded in part by the Government of Canada's Innovative Work-Integrated Learning Initiative.

Vidhya: An Entrepreneur's Journey Across Continents

Camelia Nunez



Vidhya Mohandas: Founder of the Vidhyalaya Dancespace. Credit: © Vidhya Mohandas, CC BY-NC-ND.

More Than One Story to Tell

Born in Coimbatore, Tamil Nadu, India, Vidhya Mohandas grew up in a humble middle-class family that valued learning, discipline, and self-improvement. From a young age, she was naturally curious, always exploring, questioning, and eager to learn.

That love for learning led her into engineering and eventually into a successful 15-year career in IT. On her resume, you will see companies like Cognizant Technology Solutions, Bank of America, and IBM, where she worked as a Business Analyst and Change Manager. Her work involved stakeholder engagement, complex problem-solving, and leading change. These jobs gave her financial independence and the ability to fuel her other passions, like travelling.

She had made it a goal to visit a new state in India every year and learn from every landscape, every culture, and every conversation she had across her country.

Dance—Vidhya's Childhood Passion

But long before the world of IT, something else had captured her heart, and it never let go. Vidhya was six years old, playing outside in a small village in North India where her father, a Railway Station Master, had been posted. It was an ordinary day—until someone put on some music and the kids started dancing.

When her turn came, something shifted. She became fully immersed in the moment. Her body moved with instinct, and she felt completely alive. Seen. Connected. Free.

A few curious children gathered. Then a few more. Before long, 50 people had formed a circle

around her. Then someone brought out speakers, cleared a space, and created a makeshift stage using a vegetable cart. What started as a casual game turned into a full-blown performance for more than 300 people.

That was the moment. That's when she knew dance wasn't just something she loved. It was part of who she was.

From South India to Southwestern Ontario

Though she trained in various dance forms, it was Bharatanatyam that truly shaped her not just as a dancer, but as a person.

Bharatanatyam is one of India's oldest classical dance forms. It's really a discipline that blends movement, expression, rhythm, and storytelling. To learn is to embody history. To perform it is to speak through silence.

Over time, Bharatanatyam became more than an art for Vidhya. It became her foundation. Her language. Her offering. And that's what she brought with her to Canada.

In 2023, Vidhya, her husband, and their three-year-old daughter moved to Canada. They came with hopeful hearts and a vision for a life with more opportunity, more freedom, and more space to grow. Like many newcomers, they didn't know exactly how things would unfold, but they were ready to figure it out, one step at a time.

For Vidhya, that step started with a question: "How can I continue to share what I love most, in a new country with people who might not yet know its value?"

Her answer became Vidhyalaya.

Vidhyalaya Dancespace

Vidhyalaya Dancespace is the school Vidhya dreamed of: not just a place to teach dance, but a space to build connection, discover (a new) culture and grow your confidence.

Here, students don't just learn Bharatanatyam—they connect to something deeper. They learn how rhythm, discipline, and expression can ground you. They discover that art can be both personal and cultural, ancient and alive.

Vidhyalaya Dancespace also offers:

- Carnatic vocal training, which helps dancers better understand rhythm and expression.
- Yoga to strengthen the body and calm the mind.

• A community where students of all backgrounds are welcomed into a space that celebrates learning in every form.

Vidhya began by teaching students in their homes. As her student base grew, so did her vision. In late 2024, she secured her first rental studio in Downtown Kitchener. And now, just a few months later, Vidhyalaya is expanding again. As of April 2025, Vidhyalaya has a dedicated full-time studio space with daily classes and even more room to grow.

But what makes Vidhyalaya special isn't just the dance. It's the feeling behind it. Vidhya isn't teaching for applause or stage lights. She's teaching for cultural preservation. Connection. For confidence. For self-expression. And that energy has attracted a growing group of students, parents, and even instructors who now work alongside her.

She's created something rare: a space where ancient wisdom is passed on in ways that feel fresh and alive. A space where students learn more than technique. They learn strength. Stillness. Expression. Joy. In her words, "We're not just teaching dance—we're building a movement of unity, empowerment, and artistic expression."

Vidhya's Advice for Newcomers with Dreams

> *Don't be afraid. Don't wait until everything is figured out. Start. Ask questions. Learn as you go. Canada has more support and resources than we sometimes realize, but they don't come to you. You have to go looking. And when you do, you'll be surprised by how many kind-hearted people are willing to help.*
>
> *And most importantly, believe in what you have to offer. Your experiences, your skills, your culture, your story—they all have value here.*
>
> *Every great dream comes with its trials, but those who persist with passion and a clear sense of purpose will turn those dreams into something real.*

No One Builds Alone

Vidhya isn't just building a business—she's building bridges across cultures, creating community, and adding something truly meaningful to the places she now calls home.

> *I came to Canada as an immigrant with nothing but faith in my roots, passion for my art, and a heart full of dreams. Through years of learning, unlearning, and believing, I built Vidhyalaya—a space where tradition meets opportunity. Starting a new business in a new land hasn't been easy, but every step has been filled with purpose. I carry forward not just a dance form, but the values, discipline, and cultural richness that shaped me.*

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CHAPTER REVIEW

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 money, 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 a 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, 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 or co-op** 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's Entrepreneurship Open Learning Series, Incubators and Accelerators, Government support, and Crowdfunding.

Download the "Chapter in Review" for Chapter 6: Entrepreneurship and Business Structure [PDF].

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. (Look for traits that are not already listed in this chapter.) Support each trait with a specific example that demonstrates how you have applied it in a real-life situation. Share your three traits using examples with your class or professor.
3. **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.
4. **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.
5. **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.
6. **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.

7. **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.
8. **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 brief 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.
9. **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.
10. **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 by locating 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.
11. **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 in order 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/understandingbusiness/?p=221#h5p-12

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/understandingbusiness/?p=221#h5p-13

Additional Resources

- 13 Types of Entrepreneurs with Examples
- University of Toronto's Entrepreneurship Open Learning Series
- Forms of Business Ownership. YouTube Video.
- Free Business Plan Examples
- How to Write a Business Plan, BDC
- Business Resources for Indigenous Entrepreneurs
- Business Model Canvas Explained
- Visualizing Your Business Model, YouTube Video
- 20 Canadian Entrepreneurs Who Will Inspire You
- Entrepreneurship Indicators of Canadian Enterprises, 2020, StatsCan
- 10 Reasons Small Businesses Fail, YouTube Video
- Key Small Business Statistics, 2021, Government of Canada
- Forbes 30 under 30 List, Young Entrepreneurs 2021
- Indigenous Entrepreneurship May Be the Driver of Social Innovation
- Notable Indigenous Entrepreneurs in Canada
- 21 Groundbreaking Canadian Entrepreneur Statistics
- Entrepreneurship and Innovation Toolkit, OER eCampus
- Download your free business plan template to start drafting your own plan
- BDC How to Start a Business in Canada
- 10 Tips for Starting Your Own Business, YouTube Video

- How to Start a Franchise in 8 Steps.
- Mergers and Acquisitions: Types, Structures, and Valuations
- Business Benefits Finder, Government of Canada
- Entrepreneurship Statistics In Canada
- Super Business Girl: Asia Newson (an entrepreneur who started a business when she was five years old), YouTube Video

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CHAPTER 7: MANAGEMENT AND LEADERSHIP

CHAPTER PREVIEW

This chapter explores the relationship between the four management functions. It also provides insight into types of planning and planning processes, managerial skills, environmental analyses, organizing, leadership styles, motivation theories, corporate culture, and controlling functions.

Learning Objectives

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

1. Explain how the four functions of management interrelate.
2. Examine the planning process in management, including the roles of different management levels in decision-making.
3. Express the significance of different managerial skills necessary for various levels of management.
4. List the four types of managerial planning and provide an example of each.
5. Describe three environmental analyses (SWOT, PEST, Competitor).
6. Summarize the process of organizing within a management context, including the concepts of organizational structure, division of labour, departmentalization, and delegation.
7. Review each of the four leadership styles.
8. Recognize the importance of motivation and the basics of major theories of motivation: The Hierarchy of Needs theory, the Two-Factor theory, the Expectancy theory, and the Equity theory.
9. Illustrate the process and importance of the controlling function in management, including setting and measuring performance standards and taking corrective actions.

7.1: THE FOUR FUNCTIONS OF MANAGEMENT

The four functions of management—planning, organizing, leading and controlling (POLC)—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 7.1.) The four management functions 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. While the environment in which managers operate and the tools they use have evolved significantly, managers continue to perform these essential functions.



Figure 7.1: The four functions of management—planning, organizing, leading and controlling (POLC).

Media Attributions

"Figure 7.1: Four functions of management: planning, organizing, leading and controlling (POLC)" is adapted from Chapter 6: Management in Introduction to Business, © Seneca College, licensed under CC BY-NC-SA.

7.2: PLANNING — THE FIRST FUNCTION OF MANAGEMENT

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.

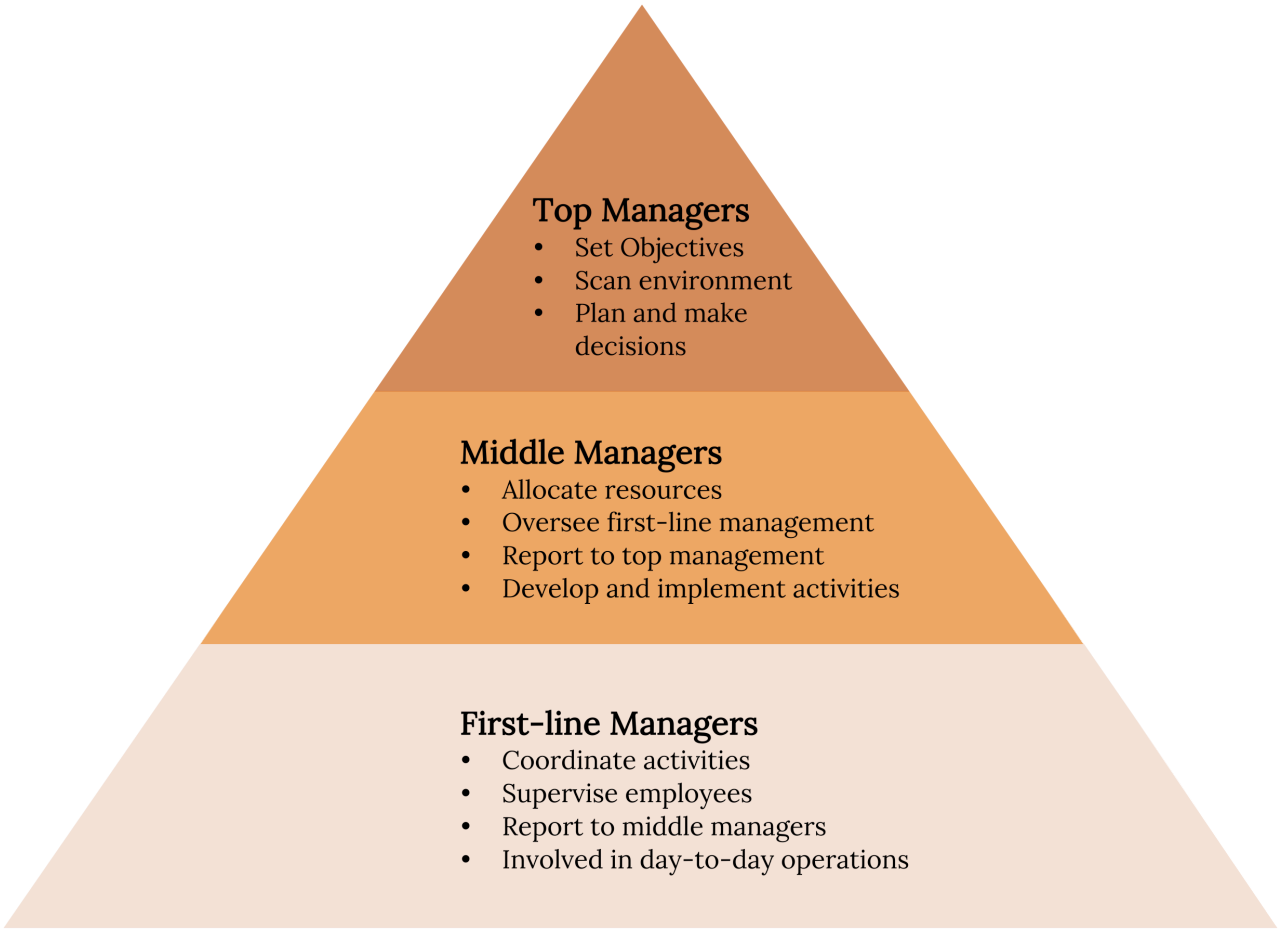
Planning is a process consisting of several steps. The process begins with environmental scanning, which simply means that planners must be aware of the critical contingencies facing their organization in terms of economic conditions, their competitors, and their customers. Planners must then attempt 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 to attain these objectives. After evaluating the various alternatives, planners must make decisions about the best course of action to achieve their 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 organizational activities.

The level of management you work in will determine the type of planning and decision-making you will do. Figure 7.2 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.



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.

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/understandingbusiness/?p=231#h5p-14

Media Attributions

"Figure 7.2: The three levels of management and the tasks performed at each level" is reused from Levels of management, © 2022 by Kindred Grey, licensed CC BY 4.0..

Image descriptions

Figure 7.2

A pyramid showing the three levels of management and tasks associated with each level in bullet points. At the bottom of the pyramid is an area in beige for the First-line Managers, with four bullet points: Coordinate

activities, supervise employees, report to middle managers, and be involved in day-to-day operations. The middle section of the pyramid is in orange with the heading Middle Managers, with the following four bullet points under the heading: Allocate resources, oversee first-line managers; report to top management; and develop and implement activities. The top section of the pyramid is in burnt orange and represents the Top Managers, with three bullet points associated with this section: Set objectives, scan the environment, and plan and make decisions.

[back to figure]

7.3: MANAGERIAL SKILLS

To be a successful manager, you'll have to master a number of 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 the course of 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, which revolve around 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]

1. Belyh, A. (2023, May 24). *11 management skills used by top managers (types & examples).* FounderJar.

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 actually 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.

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2. Belyh, A. (2023, May 24). *11 management skills used by top managers (types & examples).* FounderJar.

- 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.

Common Managerial Skills

Here are examples of some of the common skills possessed by managers.

Technical Skills

- **Data Analysis**: Ability to interpret complex data sets to make informed decisions.
- **Project Management**: Proficiency in using project management software like Microsoft Project or Trello.
- **Financial Acumen**: Understanding financial statements and budgeting.

Interpersonal Skills

- **Team Building**: Creating a cohesive team environment.

3. Belyh, A. (2023, May 24). *11 management skills used by top managers (types & examples).* FounderJar.

- **Conflict Resolution**: Mediating disputes and finding mutually beneficial solutions.
- **Empathy**: Understanding and addressing team members' concerns and needs.

Communication Skills

- **Public Speaking**: Delivering presentations and speeches effectively.
- **Active Listening**: Fully concentrating, understanding, and responding to team members.
- **Written Communication**: Crafting clear and concise emails, reports, and documentation.

Conceptual Skills

- **Strategic Planning**: Developing long-term goals and plans.
- **Problem Solving**: Identifying issues and creating effective solutions.
- **Innovation**: Thinking creatively to improve processes and products.

Time Management Skills

- **Prioritization**: Identifying the most important tasks and focusing on them.
- **Delegation**: Assigning tasks to the right team members to maximize efficiency.
- **Scheduling**: Creating and adhering to timelines and deadlines.

Decision-Making Skills

- **Risk Assessment**: Evaluating potential risks and benefits before making decisions.
- **Analytical Thinking**: Breaking down complex problems to make informed choices.
- **Decisiveness**: Making timely decisions and taking responsibility for outcomes.

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7.4: THE FOUR TYPES OF MANAGERIAL PLANNING

Management's investment decisions and risk management strategies are informed by industry dynamics and the four stages of the **industry life cycle** (also referred to as the business cycle), which include expansion, peak, contraction, and trough (discussed in the chapter on economics).

An understanding of the industry life cycle 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 their customer base, and more. External factors that affect a business are often analyzed through a PEST analysis.

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 is most often responsible for strategic planning. Strategic managers are often involved with developing and writing company mission, vision, and value statements.

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 Walmart: 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 BDC article, 5 Tips for Creating a Winning Mission Statement, for tips on writing a mission statement.
2. Identify core values or beliefs that will guide the behaviour of the 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. 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 7.3.) 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 7.3: SMART Goals—goals that are 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.

Types of Planning

Watch the YouTube video, "Types of Planning: Strategic, Tactical, Operational & Contingency Planning," to learn how the levels of planning interconnect.



One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=238#oembed-1

Transcript for "Types of Planning: Strategic, Tactical, Operational & Contingency Planning" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: Brigole, J. (2021, March 24). *Types of planning: Strategic, tactical, operational & contingency planning* [Video]. YouTube.

Media Attributions

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7.5: 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 by 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 to take advantage of opportunities, reduce 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), we 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 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 7.4.)

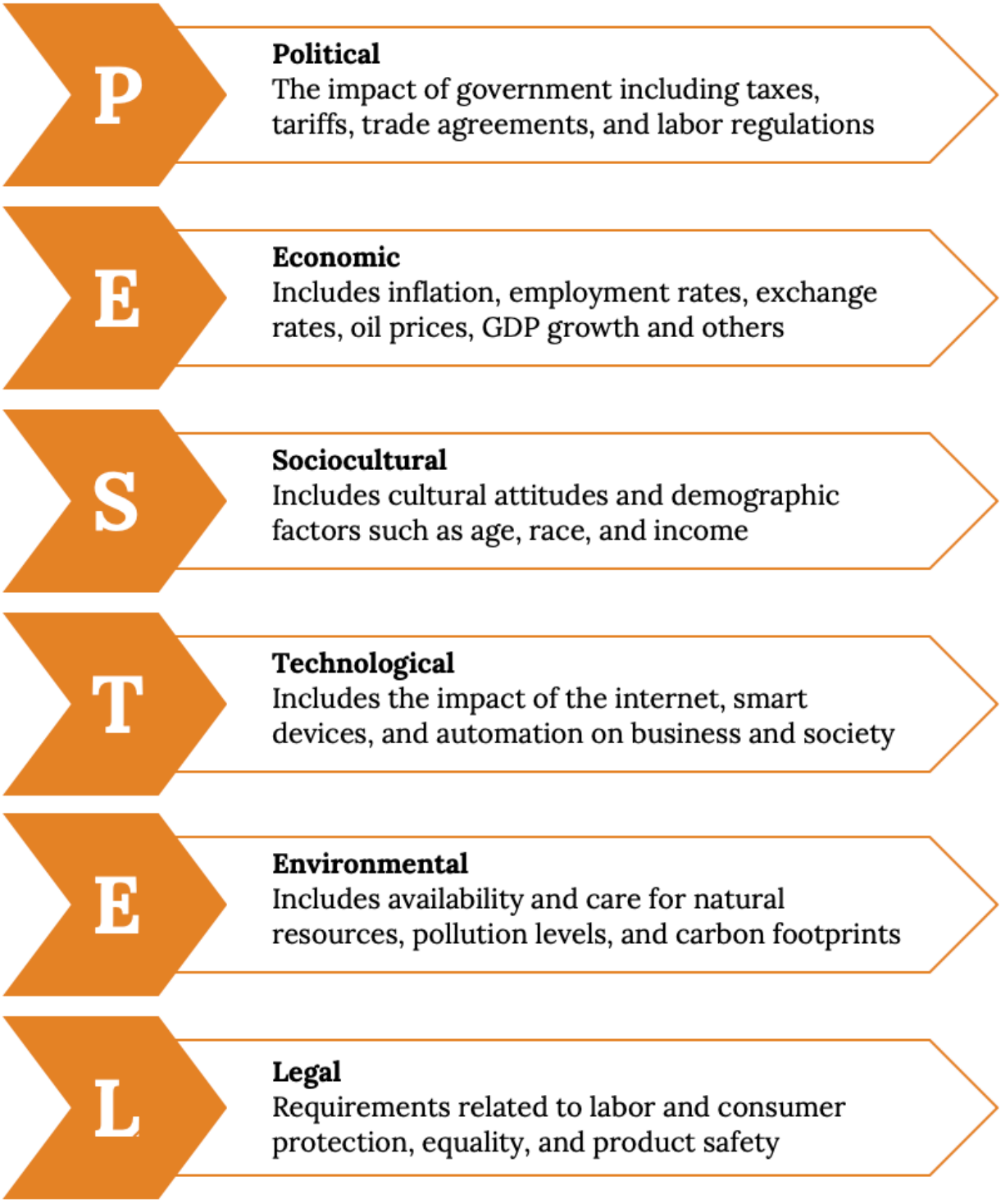


Figure 7.4: Acronym for PESTEL—Political, Economic, Sociocultural, Technological, Environmental, and Legal. [See image description.]

SWOT Analysis

A **SWOT 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 a SWOT analysis is to increase awareness of the factors that go into making a business decision or establishing a business strategy.

Each of the four components of a SWOT analysis is explained in greater detail below.[1]

- *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 of your company that detracts or 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 location 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 technology changes and upcoming regulations or laws.

Here's a SWOT analysis for Lululemon, the Canadian athletic apparel brand:

SWOT Analysis

Strengths:

- **Strong Brand Identity:** Lululemon is well-known for its high-quality, stylish athletic wear, particularly in the yoga and fitness communities.
- **Customer Loyalty:** The brand has a loyal customer base that appreciates its innovative

1. White, J. & Bottorff, C. (2024, May 28). What is a SWOT analysis? *Forbes.*

designs and premium products.
- **Innovative Products:** Lululemon consistently introduces new products and materials, maintaining its reputation for innovation.
- **Community Engagement:** The brand actively engages with its community through events, classes, and partnerships, fostering a strong connection with its customers.

Weaknesses:

- **High Prices:** Lululemon's products are often priced higher than those of competitors, which may limit its customer base to higher-income consumers.
- **Limited Market Reach:** While Lululemon has a strong presence in North America, its international market penetration is still growing.
- **Dependence on Physical Stores:** Despite a growing online presence, Lululemon still relies heavily on its physical stores for sales, which can be a vulnerability in times of economic downturn or pandemics.

Opportunities:

- **Global Expansion:** Lululemon has significant potential to expand its presence in international markets, particularly in Asia and Europe.
- **Product Diversification:** Expanding into new product categories, such as men's apparel and accessories, can attract a broader customer base.
- **Sustainability Initiatives:** Increasing focus on sustainable and eco-friendly products can appeal to environmentally conscious consumers.
- **Digital Growth:** Enhancing its e-commerce platform and leveraging digital marketing can help Lululemon reach a wider audience and increase sales.

Threats:

- **Intense Competition:** The athletic apparel market is highly competitive, with strong players like Nike, Adidas, and Under Armour.
- **Economic Uncertainty:** Economic downturns can affect consumer spending on premium products, impacting Lululemon's sales.
- **Supply Chain Disruptions:** Global supply chain issues can affect product availability and increase costs.
- **Changing Consumer Preferences:** Rapid changes in fashion trends and consumer preferences can pose a challenge to maintaining relevance.

Artificial Intelligence Disclosure: *The SWOT analysis for Lululemon was created with the assistance of Microsoft Copilot, an AI-based tool designed to generate text based on user inputs. In accordance with the current guidance from Creative Commons, the content created using Generative AI tools is shared under a CC 1.0 Universal Deed.*

SWOT Analysis

Watch the YouTube video, "SWOT Analysis" to learn how to analyze a company's strengths, weaknesses, opportunities and threats.



One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=243#oembed-1

Transcript for "SWOT Analysis" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: SmartDraw. (2018, August 17). *SWOT Analysis – What is SWOT? Definition, examples and how to do a SWOT analysis.* [Video]. YouTube.

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.

The Five Forces Analysis Explained

Watch the YouTube video, "The Five Forces Analysis Explained," to learn how to apply the Five Forces Analysis to a coffee shop within this industry.

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Transcript for "The Five Forces Analysis Explained" Video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: Sim Institute. (2020, November 15). *The Five Forces Analysis Explained* [Video]. YouTube.

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Image descriptions

Figure 7.4

The image is a vertical infographic outlining the PESTEL framework. Each category is represented by an orange rightward-pointing arrow containing the first letter of its name in white, bold text. To the right of each arrow, the category name is in black bold text, followed by a brief description in smaller black text:

P – Political: The impact of government including taxes, tariffs, trade agreements, and labor regulations

E – Economic: Includes inflation, employment rates, exchange rates, oil prices, GDP growth and others

S – Sociocultural: Includes cultural attitudes and demographic factors such as age, race, and income

T – Technological: Includes the impact of the internet, smart devices, and automation on business and society

E – Environmental: Includes availability and care for natural resources, pollution levels, and carbon footprints

L – Legal: Requirements related to labor and consumer protection, equality, and product safety

[back to figure]

7.6: ORGANIZING — THE SECOND FUNCTION OF MANAGEMENT

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 organizational 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.[1] 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.

1. Bhasin, H. (2024, December 12). *Span of control – Definition, meaning, factors, examples.* Marketing91.

What is Organizational Structure?

Watch the YouTube video, "What is Organizational Structure?" to learn how companies structure their business operations.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=246#oembed-1

Transcript for "What is Organizational Structure?" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: Marketing Business Network. (2019, May 18). *What is organizational structure?* [Video]. YouTube.

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.[2]

2. Thompson, A. (2024, December 15). *3M industry, organizational structure, management philosophy*. Panmore Institute.

3M has operations in different types of markets, such as healthcare, electronics, 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.[3]

Organizing also involves the design of individual jobs within the organization. Decisions must be made about the duties and responsibilities of individual jobs, as well as the manner in which the duties should be carried out. Decisions made about the nature of jobs within the organization are generally called "job design" decisions.

Organizing at the level of the organization involves deciding how best to departmentalize, or cluster, jobs into departments to coordinate effort effectively. There are many different ways to departmentalize, including organizing by function, product, geography, or customer. Many larger organizations use multiple methods of departmentalization.

Organizing at the level of a particular job involves how best to design individual jobs to most effectively use human resources. Traditionally, job design was based on principles of division of labour and specialization, which assumed that the narrower the job content, the more proficient the individual performing the job could become. However, experience has shown that it is possible for jobs to become too narrow and specialized. For example, how would you like to screw lids on jars day after day, as you might have done many decades ago if you worked in a company that made and sold jellies and jams? When this happens, negative outcomes result, including decreased job satisfaction and organizational commitment, increased absenteeism, and turnover.

Many organizations have attempted to strike a balance between the need for worker specialization and the need for workers to have jobs that entail variety and autonomy. Many jobs are now designed based on such principles as **empowerment**, job enrichment and teamwork.

3. Thompson, A. (2024, December 15). *3M industry, organizational structure, management philosophy*. Panmore Institute.

How Companies Get Jobs Done

Building an organizational structure engages managers in two activities: job specialization (dividing tasks into jobs) and departmentalization (grouping jobs into units).

- **Job Specialization**.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.
- **Departmentalization**. 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 job groupings result in different organizational structures, and for the sake of simplicity, we focus on two types—functional and divisional organizations.

Types of Divisional Organization with Company and Industry Examples

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**. An organizational design where a company is structured around its different product lines. Examples: General Motors uses product-based divisions for their various automotive lines — Buick, Cadillac, Chevrolet, and GMC.
- **Customer Divisions.** An organizational design where the company is structured around different customer groups or segments, allowing it to tailor products, services, and operations to meet specific customer needs. Example: Johnson & Johnson is divided into three consumer-based structures — consumer business, pharmaceuticals, and professional business.
- **Process Divisions.** An organizational design where the company is structured around the processes needed to create a product or service. Example: Many hospitals use a process-based organizational structure, organizing departments around key stages of patient care such as intake, treatment, recovery, and discharge to improve efficiency and outcomes.
- **Geographical Divisions.** An organizational design where the company is structured by geographical location, allowing it to respond to customers more effectively based on their physical location. Example: Adidas is set up so that it can operate effectively in the five regions of the world where it operates.

7.7: LEADING — THE THIRD FUNCTION OF MANAGEMENT

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, who is 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, 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. The top-level leadership demonstrated by Jeff Bezos was also exemplified by Jack Welch during his tenure at General Electric, inspiring numerous studies on his leadership style. Organizations need strong, effective leadership at all levels in order to meet goals and remain competitive.

Governance Board Membership

The Board of Directors serves as a governing body that represents the interests of community stakeholders in non-profit organizations and of shareholders in 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 attract and retain more Indigenous talent. It additionally provides organizations with the opportunity to demonstrate respect for the 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.

Watch the Indigenous Lifeways in Canadian Business "Governance Board Membership" video.

> *One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=249*

Transcript of "Governance Board Membership" video [PDF–New Tab]. Closed caption available in video player.

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Leadership Style

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

Autocratic Style

Autocratic leaders make decisions independently and expect subordinates to follow detailed instructions. Information flows one way, from manager to subordinate. This style is common in the military and can be effective in emergencies, such as a factory fire, where quick, decisive action is needed. Autocratic leaders may be seen as narrow-minded and controlling, as they typically do not seek input from employees and make decisions on their own.

Democratic Style

Democratic leaders share decision-making with group members and encourage discussion. This style works well in collaborative environments, like a marketing team brainstorming ideas. **Participative leaders** use a democratic, consensual, consultative style. The leader encourages team participation and values group input before making decisions. There are three types of participative leaders:

- **Democratic leaders**: Group votes on decisions.
- **Consensual leaders**: All parties agree on the final decision.
- **Consultative leaders**: The leader makes the final decision after consulting the team.

Transformational

Transformational leadership is a leadership style that can inspire positive changes in those who follow. Transformational leaders inspire positive changes through energy and passion. They focus on helping every member succeed by conveying a clear vision and recharging the team. This style is effective in modern organizations for team building and innovation, like a tech startup founder inspiring the team to develop a groundbreaking app.

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.

Free-rein leaders provide minimal supervision, allowing employees to make decisions independently. This style works well with highly trained professionals, like a software development team. However, some criticism of free-rein leaders is that this can lead to frustration and confusion if expectations are unclear or feedback is lacking.

Situational Leadership

Effective leaders use **situational leadership**, adapting their style to match the maturity and competency levels of employees. New hires may need authoritative leadership, while experienced employees may perform better under participative or free-rein styles. This approach empowers employees.

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/understandingbusiness/?p=249#h5p-15

7.8: 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 a work-related goal.

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 **hierarchy of needs**, the idea is that we need to satisfy lower-level needs before we move to the other levels; once we have satisfied the lower-level 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 the needs that 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 7.5, 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, of the family, of health, of property
- *Physiological:* Breathing, food, water, sex, sleep, homeostasis, excretion

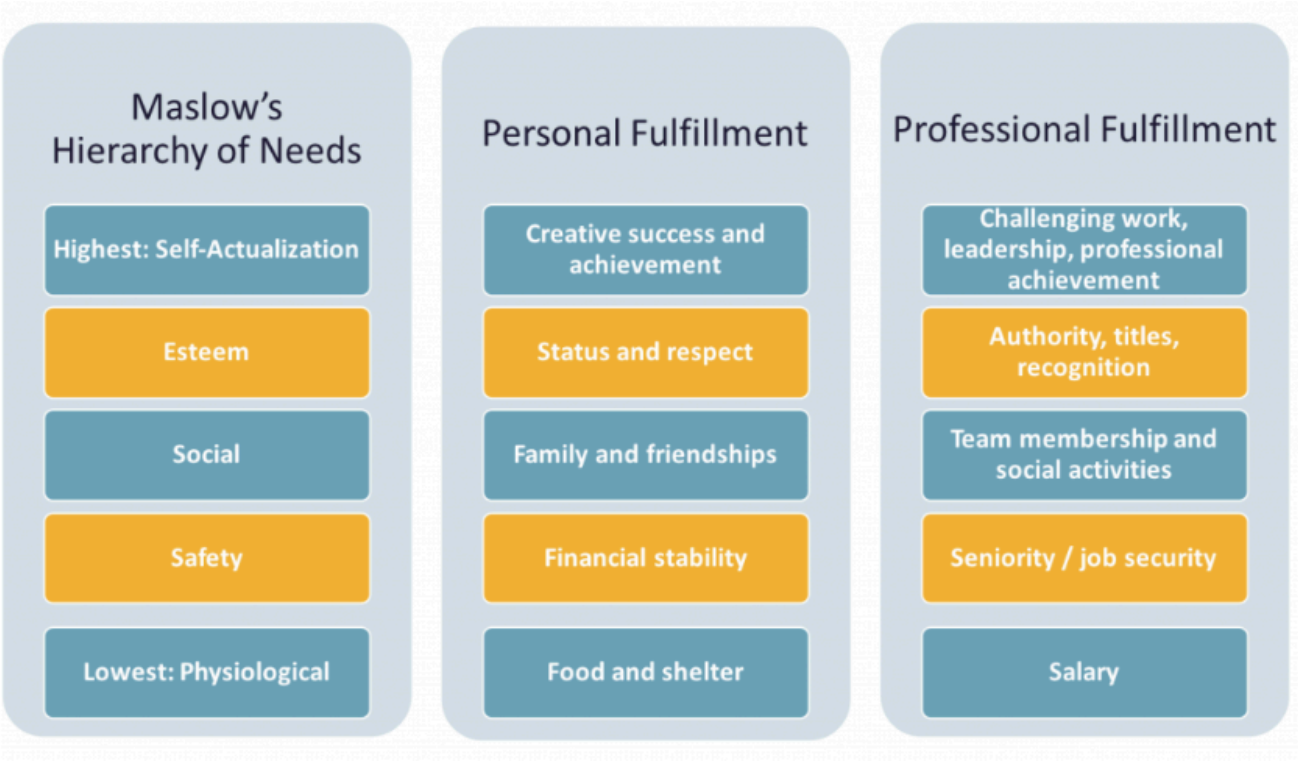


Figure 7.5: Maslow's Hierarchy of Needs. [See image description.]

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 that must be present to

meet a worker's expectations and prevent job dissatisfaction.

Figure 7.6 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.


SATISFIED AND MOTIVATED
Achievement
Recognition
Responsibility
Promotion opportunities
Personal growth opportunities
MOTIVATION FACTORS
Not dissatisfied but not motivated
Quality of supervision
Pay
Job security
Company policies
Relations with others
Physical working conditions
HYGIENE FACTORS
DISSATISFIED AND DEMOTIVATED

Figure 7.6: Herzberg's Two-Factor Theory—poor hygiene factors will increase job dissatisfaction, while good motivators will increase satisfaction. [See image description.]

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 a job 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 7.7, 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: If the employee

- believes that his or her efforts will result in acceptable performance.
- believes that acceptable performance will lead to the desired reward.
- values the reward.

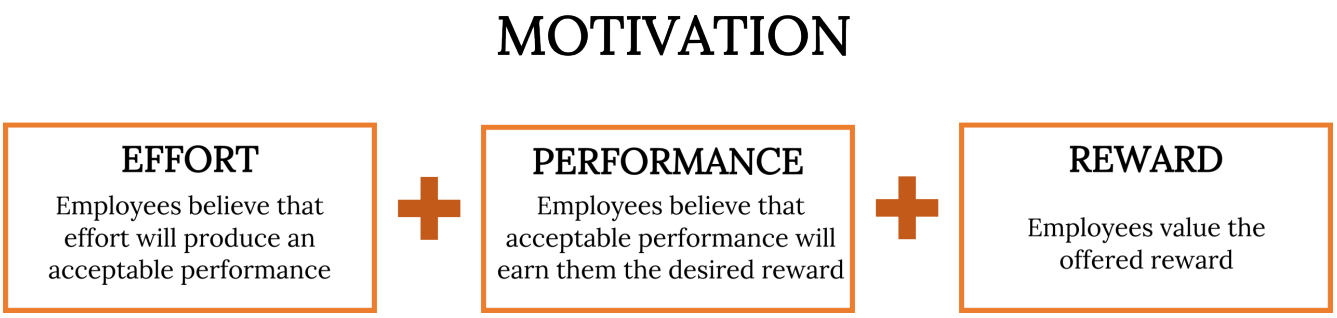


Figure 7.7: Vroom's Expectancy Theory. [See image description.]

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.[1]

Equity theory was developed by John Stacey Adams, and you can read more 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 7.8, the Equity Theory, your reaction makes sense. The Equity Theory of motivation

1. Indeed Editorial Team. (2024, August 15). *A guide to equity theory of motivation.* Indeed.

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

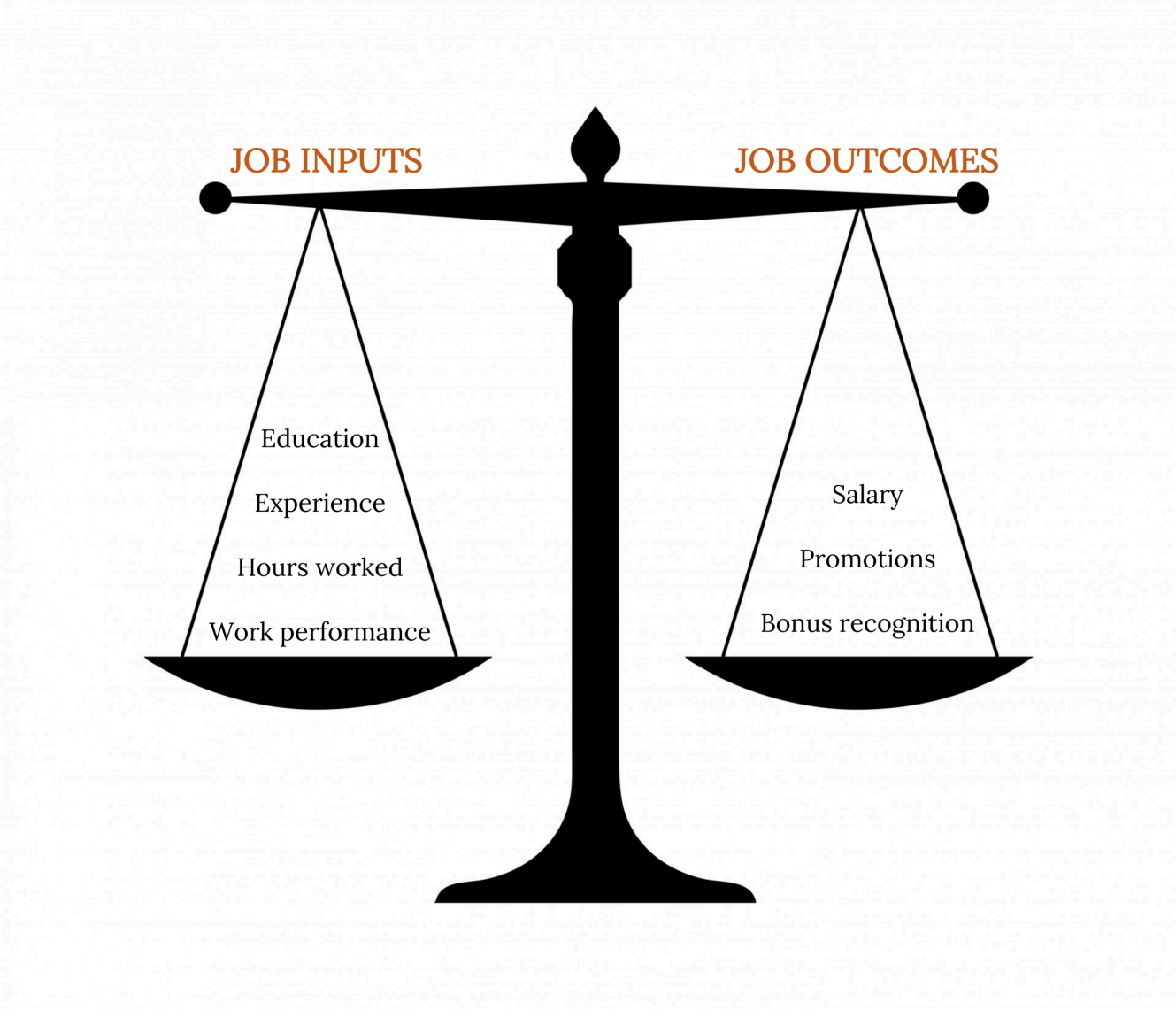


Figure 7.8: Equity Theory by John Stacey Adams. [See image description.]

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

Check your understanding of employee motivation. 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/understandingbusiness/?p=255#h5p-16

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Image descriptions

Figure 7.5

A three-column diagram listing Maslow's Hierarchy of Needs in the first column, and associating each level with specific with aspects of personal and professional fulfillment, as outlined in the table below.

Maslow's Hierarchy of Needs	Personal Fulfillment	Professional Fulfillment
Highest: Self-Actualization	Creative success and achievement	Challenging work, leadership, professional achievement
Esteem	Status and respect	Authority, titles, recognition
Social	Family and friendships	Team membership and social activities
Safety	Financial stability	Seniority/job security
Lowest: Physiological	Food and shelter	Salary

[back to figure]

Figure 7.6

A pyramid showing the three levels of management and tasks associated with each level in bullet points. At the bottom of the pyramid is an area in beige for the First-line Managers, with four bullet points: Coordinate activities, supervise employees, report to middle managers, and be involved in day-to-day operations. The middle section of the pyramid is in orange with the heading Middle Managers, with the following four bullet points under the heading: Allocate resources, oversee first-line managers; report to top management; and develop and implement activities. The top section of the pyramid is in burnt orange and represents the Top Managers, with three bullet points associated with this section: Set objectives, scan the environment, and plan and make decisions.

[back to figure]

Figure 7.7

A flowchart illustrating the components of motivation. It consists of three rectangular boxes aligned horizontally, each outlined in orange. The boxes are separated by orange plus signs. At the top, the word "MOTIVATION" is centered in bold black uppercase letters. The first box on the left is labelled "EFFORT" with the text below stating, "Employees believe that effort will produce an acceptable performance." The middle box is labelled "PERFORMANCE" with the text, "Employees believe that acceptable performance will earn them the desired reward." The rightmost box is labelled "REWARD," and it reads, "Employees value the offered reward."

[back to figure]

Figure 7.8

A black silhouette of a balanced scale with "job inputs" above the left side and "job outcomes" on the right. The job inputs listed on the left side of the scale include education, experience, hours worked, work performance and the job outcomes listed on the right side of the scale include salary, promotions, and bonus recognition.

[back to figure]

7.9: CONTROLLING — THE FOURTH FUNCTION OF MANAGEMENT

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 7.9.)

1. 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 the performance.
3. Compare the actual performance against the standards and identify any deviations from the standards.
4. Determine the reasons for the deviations.
5. Take corrective action if needed.

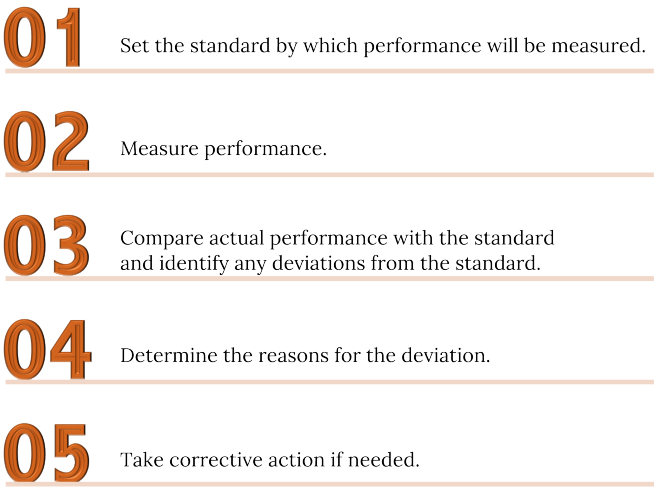


Figure 7.9: Management function—control process. [See image description.]

Performance can be measured in several ways. Some measures of performance include 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 behavioural 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 the delivery of services, compliance with company policies, and many other activities within the organization.

The Importance of Controls

Project controls provide information that allows 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:[1]

- People**:** Without project controls, questions may arise about who is available to work on a project, who is 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 up when things don't go as planned and quickly correct course to keep the project on track.

Benchmarking

Benchmarking could be considered 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:

1. Team Asana. (2025, January 18). *5 project controls and where to implement them*. Asana.

- 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 ranking tables to see how their programs compare on student satisfaction, salaries of graduates, and other important criteria.
- 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 the competition without relying solely on publicly available data, companies may enter into benchmarking consortia 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.

CAREER SPOTLIGHT

Lance McLellan



Lance McLellan

In his role as Vice President, Financing with the Business Development Bank of Canada (BDC), Lance McLellan leads the Southwestern Ontario teams in developing sales and marketing strategies necessary to achieve the bank's objectives. He also works to optimize the productivity of the team and foster relationships with key stakeholders both inside the bank and in the community. His work also encompasses ensuring compliance with business rules and the management, health, and growth of the loan portfolio. He feels that talent management and development, as well as maintaining communication that aligns with the organization's key strategies, are important elements that drive long-term success.

"As Vice President of Financing at BDC, I have the privilege of leading the Southwestern Ontario teams in crafting strategic sales and marketing initiatives that support the growth and success of Canadian

entrepreneurs. My role is dynamic, encompassing the optimization of team productivity, fostering key relationships within the bank and the community, and ensuring compliance with business rules. I am passionate about nurturing and developing talent, empowering individuals to reach their full potential and driving our collective success. Maintaining effective communication that aligns with the organization's core strategies is also crucial. Every day brings new challenges and opportunities, and that's what keeps me excited about this field."

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CAREER SPOTLIGHT

Tanya Golesic



Tanya Golesic

Tanya Golesic is an accomplished business executive and the Chief Executive Officer of Mackage, a luxury lifestyle brand. With an impressive background in the fashion industry, she has held various prominent positions throughout her career. Before joining Mackage, Golesic served as the President of Jimmy Choo, the renowned British footwear brand under Capri Holdings.

During her tenure at Jimmy Choo, spanning five years, Golesic revitalized the brand and brought forth a new era of modern luxury. She successfully repositioned the brand, elevating its image and overseeing several lucrative collaborations, including partnerships with Off White and Timberland. Additionally, as part of the executive team, Golesic played a pivotal role in orchestrating the sale of Jimmy Choo to Capri Holdings, demonstrating her exceptional management skills amidst a challenging global market.

Prior to her time at Jimmy Choo, Golesic held key leadership roles in esteemed fashion houses. She served as the Chief Commercial Officer at Canada Goose, further enhancing her expertise in the luxury market. Additionally, she held the position of Senior Vice President at Marc Jacobs (LVMH) and Vice President of

Sales and Planning at Ralph Lauren, showcasing her extensive experience and comprehensive understanding of the industry.

Beyond her professional accomplishments, Golesic is actively involved in the field of education. She currently serves on the board of the Zagreb School of Economics and Management, contributing her expertise and insights to the academic community.

In her current role as CEO of Mackage, Golesic remains dedicated to driving the brand's global expansion, both in retail and e-commerce. She places a strong emphasis on innovation and delivering an exceptional customer experience. Guided by the three pillars of luxury, destinations, and specialists, Golesic ensures that Mackage continues to thrive as a premier luxury lifestyle brand.

"Building dynamic teams is without a doubt the key to our brand's success as well as my success as a CEO. In 2024, I had the opportunity to lead my team in crafting our largest brand campaign, both product and marketing, in a year of global uncertainty and change.

As the daughter of Croatian immigrants, I learned the importance of family, respect and hard work, which translates to respect, trust and collaboration. If you have these three pillars as your foundation in business and life, success will follow."

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"Figure 7.9: Management Function: Control Process" is reused from The control process, © 2022 by Kindred Grey, licensed CC BY 4.0..

Image descriptions

Figure 7.9

A numbered list of the Control Process. From 1 to 5 the steps are: 1) Set the standard by which the performance will be measured. 2) Measure performance. 3) Compare actual performance with the standard and identify any deviations from the standard. 4) Determine the reasons for the deviation. 5) Take corrective action if needed.

[back to figure]

CHAPTER REVIEW

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**, which includes expansion, peak, contraction, and trough 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 comes the mission statement. Followed by identifying core values; assessing the company's strengths, weaknesses, opportunities, and threats; establishing goals and objectives; and developing and implementing 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 designed to develop specific action steps that support 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 it 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 to enable more effective responses to customers in each region.

21. **Leaders** provide focus and direction to others and motivate them to achieve organizational goals. Regardless of position, a leader can be anyone in an organization who can 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** leaders are directive leaders, allowing for very little input from subordinates.
25. A **democratic style** of leadership encompasses a more participative style where leaders use a 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 include 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. **Maslow'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 the need(s) at the more basic level, we move on to the next level as the previous one no longer satisfies us. There are five levels of needs (from lowest to highest): Physiological, Safety, Social, Esteem, and Self-Actualization.

32. **Herzberg's Two-factor Theory** includes motivation factors and hygiene factors. Motivation factors are strong contributors to job satisfaction whereas hygiene factors are 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 (1) believes that his or her efforts will result in acceptable performance, (2) believes that acceptable performance will lead to the desired reward, and (3) values the reward.
34. The **Equity Theory** of motivation is the idea that what an individual receives for their work directly affects their motivation.
35. **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 up when things don't go as planned and quickly correct course to keep the project on track.
36. The process of **benchmarking** involves comparisons to other organizations' practices and processes with the objective of learning and improvement in both efficiency and effectiveness.

Download the "Chapter in Review" for Chapter 7: Management and Leadership [PDF].

End-of-Chapter Exercises

1. **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?

2. **Famous CEOs.** Use the Internet to research one of these famous leaders: Bill Gates, Elon Musk, or Steve Jobs (or another 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.
3. **Mission, Values, Strategy.** Use the Internet to research a company, for example, X Corp (formerly Twitter), Google, Amazon, or others and locate the company's 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.
4. **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.
5. **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.
6. **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.
7. **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 another) 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 various ways by which your school could take advantage of these opportunities by using its strengths, and various ways by which your school could protect itself from threats and overcome its weaknesses. Share your results with a partner and/or your professor.
8. **Conduct a PEST Analysis.** Conduct a PEST, PESTEL, or PESTLE Analysis for your college or university (or other company as assigned by your professor). Use a free software tool such as

Lucidspark (or another) to help you do this task. Try to have at least two points under each of the PEST, PESTEL, and PESTLE categories. 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.

9. **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.
10. **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.
11. **SMART Goals.** Use this online AI SMART Goals Generator (or another). 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.
12. **Contingency Plans.** Research the contingency plans your college or university have 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.
13. **Company Research.** Choose a Global 500 company (or a specific company 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? Share your findings with your class and/or professor.
14. **Controlling Function**. Conduct some research about your college or university to find out what controls are in place to ensure 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/understandingbusiness/?p=262#h5p-17

Additional Resources

- SMART Goals: What They Are and How to Write Them
- SMART Goals – Quick Overview. YouTube Video.
- PESTEL Analysis. YouTube Video.
- What is a SWOT Analysis? Download a Free Template
- 14 Essential Business Metrics that Managers Often Track
- Famous CEOs: 40 Leaders Who Shaped Business History
- The 3 Levels of Management: Definition, Examples, and FAQs
- SWOT Analysis for Starbucks. YouTube Video.
- Motivating Your Team Using Herzberg's Motivators and Hygiene Factors. YouTube Video.
- Expectancy Theory. YouTube Video.
- Vroom's Expectancy Theory. YouTube Video.
- Five Steps in the Strategic Planning Process. YouTube Video.
- Porter's Five Forces – A Practical Example. YouTube Video.

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CHAPTER 8: MARKETING MANAGEMENT

CHAPTER PREVIEW

In this chapter, you will explore the foundational concepts and strategies of marketing, from defining key terms to understanding the intricacies of the marketing mix, target market identification, and effective branding. By the end of this chapter, you'll have gained a working knowledge of marketing research, pricing strategies, and promotional tools, including social media, to build lasting customer relationships.

Learning Objectives

After reading this chapter, you should be able to

1. Explain the core concepts and processes involved in marketing with a focus on consumer behaviour.
2. Examine the evolution of the marketing concept and apply it to businesses in various industries.
3. Explore the components of a marketing strategy, including the target market and marketing mix, and their roles in strategic marketing planning.
4. Outline how marketers identify target markets for new products.
5. Identify the four Ps of the marketing mix.
6. Discuss three branding strategies.
7. Document the role of pricing strategies and place decisions in the marketing mix.
8. Demonstrate the tools used for promoting products.
9. Describe how companies attempt to retain customers and build relationships.

8.1: MARKETING AND CONSUMER BEHAVIOUR

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]

1. American Marketing Association. (n.d.). *Definition of marketing*.



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 theatre, 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 theatre 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 and Decision-Making

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 (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 the product, if it works as advertised, or if you will return it, telling others about your experience, etc.)

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 influences:* Culture, subculture, social class, family, and peers.
- *Psychological influences:* Motivation, perception, attitudes, and learning.
- *Situational influences:* Physical and social surroundings, type of product purchased.
- *Personal influences:* Age, economic situation, lifestyle, and personality.
- *Marketing mix influences:* Product, price, place, and promotion.

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8.2: THE MARKETING CONCEPT

The **marketing concept** is a business philosophy espoused by businesses that focus on achieving organizational success by researching and understanding the needs and wants of their customers in order to deliver value more effectively than their competitors.[1]

The nature of marketing has evolved over the years.[2]

- **The Industrial Era (1860s–1920s).** With the advent of new technologies, mass production became possible for the first time, and factories could generate greater quantities of goods more efficiently than ever before. Companies focused on manufacturing and selling as many products as possible. Products were often marketed based on their durability, quality, and value for money. The auto manufacturer Ford was among the first companies to benefit from the Industrial Revolution, thanks to the assembly lines that made the production of their Model T automobile much more efficient and streamlined. This allowed them to sell their cars for a lower price, making them more affordable for the average consumer. Only a little was needed in terms of marketing or sales tactics during this era, as demand was high and competition was scarce.
- **The Sales Era (1920s–1940s).** This was a time when more companies were competing for customers. The main goal during the Sales Era was to sell as many units as possible. In most cases, neither customer experience nor product or service quality was of much importance. Companies used eye-catching sales promotions, radio commercials, and door-to-door sales to entice customers to make a purchase.
- **The Marketing Era (1950s–1990s).** This era was defined by a strong consumer orientation, where businesses prioritized understanding and meeting the needs and preferences of specific customer groups. The development of market research and consumer behaviour studies, including customer segmentation, became essential tools. Marketing strategies began to rely on multiple channels, emphasizing brand relationships, branding, and a growing awareness of social responsibility and ethical practices. During this period, the 4Ps of marketing—product, price, place, and promotion—were introduced, shaping the foundation of modern marketing. The focus shifted toward designing products that truly reflected consumer demand.
- **The Relationship Era (1990s–Present).** This 1990s marked the rise of customer relationship

1. Sujan. (2024, August 8). *What is a marketing concept? Definition, features, examples, and pros/cons.* TheMBAins.

2. Sharma, A. (2024, October 14). *7 stages in the evolution of marketing: A journey through time.* The Nextrack.

management (CRM), where businesses began to personalize marketing efforts to build stronger connections with individual consumers. The integration of technology became essential for managing and enhancing customer interactions. With the emergence of social media, consumers gained a powerful voice, enabling two-way communication between brands and their audiences. Advancements in technology allowed companies to engage more personally with customers, creating deeper and more meaningful relationships. Organizations began to recognize the value of long-term connections—not only with customers but also with employees, suppliers, and business partners. Loyalty programs were introduced to encourage repeat purchases and reward consistent engagement. Many companies also began prioritizing social responsibility, recognizing that consumers are more likely to support brands that actively contribute to their communities and reflect their values.

- **The Digital and Social Era (2010s–Present).** This era continues to see the rise of new ways for businesses and consumers to communicate and share information through the Internet and social media.
- **The Sustainability and ESG Era (2010s–Present).** During this time, businesses continue to 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 Inc. [3]

Established in 1998 in Vancouver, Canada, Lululemon Athletica has grown from a small yoga

3. Pereira, D. (2025, January 8). *Lululemon marketing strategy.* The Business Model Analyst.

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 [4]

4. Shastri, A. (2024, September 4). *In-depth marketing strategy of Shopify-IIDE*. IIDE.

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 own businesses while simultaneously driving Shopify's ongoing revenue growth.
- **Distribution Channels:** Strong distribution channels and 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. Shopify has cultivated a thriving e-commerce ecosystem through targeted campaigns and a commitment to user education. This focus on user success ensures Shopify remains a leader in the ever-evolving world of online sales.

8.3: 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, but it must also define goals and outcomes, timelines, resources, and opportunities. For example, the 2021 census conducted by Statistics Canada stated that 6.2 million people (more than one in six Canadians) live in the Greater Toronto Area (GTA). 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:[1]

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, and 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 Apple, which has been the winner of the CMO Survey Award for Marketing Excellence for the past sixteen years.

1. Weller, J. (2017, June 23). *The definitive guide to strategic marketing planning*. Smartsheet.

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:



Apple is one of the most successful companies in the world.

1. **Mission:** Apple is dedicated to making innovative, high-quality products.
2. **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.
3. **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.
4. **Marketing Mix:** While Apple offers a range of products, it values premium pricing and relies on strict guidelines for distribution.
5. **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.

Media Attributions

"Apple inc, Mac, Apple store image" by matcuz, used under the Pixabay license.

8.4: 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 are able to buy it. This market can include either or both of these 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, behavioural, 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, Behavioural, 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/understandingbusiness/?p=276#h5p-18

Clustering Segments

Typically, marketers determine target markets by combining, or "clustering," segmenting criteria. What characteristics does Starbucks look for when 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.

8.5: THE MARKETING MIX AND THE FIRST P — PRODUCT

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

Let's take Tim Hortons, a well-known Canadian brand, as an example to illustrate the 4Ps of marketing:

Product

Tim Hortons offers a wide range of products, including coffee, donuts, sandwiches, and other baked goods. They also have seasonal items and limited-time offers to keep the menu fresh and appealing. Their products are known for their quality and consistency, which helps maintain customer loyalty.

Price

Tim Hortons adopts a competitive pricing strategy to attract a broad customer base. Their prices are generally affordable, making their products accessible to many consumers. They also offer value deals and combos to provide more options for budget-conscious customers.

Place

Tim Hortons has an extensive network of locations across Canada and internationally. They are strategically placed in high-traffic areas such as shopping malls, airports, and busy street

corners. Additionally, they offer drive-thru services and have expanded their presence through mobile apps and delivery services to reach customers conveniently.

Promotion

Tim Hortons uses various promotional strategies, including TV, radio, and social media campaigns. They also engage in sponsorships and community events to enhance brand visibility. Loyalty programs like the Tim Hortons Rewards program encourage repeat business by offering points for purchases that can be redeemed for free items.

This combination of product quality, competitive pricing, strategic placement, and effective promotion helps Tim Hortons maintain its strong market presence and customer loyalty.

Artificial Intelligence Disclosure: *The feature box on the 4Ps of Tim Hortons was created with the assistance of Microsoft Copilot, an AI-based tool designed to generate text based on user inputs. In accordance with the current guidance from Creative Commons, the content created using Generative AI tools is shared under a CC1.0 Universal Deed.*

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 attributes that fit well 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.[1] 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.[2]

We will focus on the 4Ps Marketing Mix for the time being.

The First P — Product

There are many things involved in product development. The first step starts with coming up with an idea. It's

1. abs institute. (n.d.). *The new marketing mix S.A.V.E.*

2. VisoChart. (n.d.). *Difference between 4Ps and 4Cs of marketing.*

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 feasibility 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

The product life cycle begins once a product is developed. 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 a 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

8.6: 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."[1]

Branding is an essential tool for marketing. Consumers relate so strongly to brands that you can show them just the brand logo, and they can recall everything they know about the brand. Visit the World's Most Recognizable Brand Logos on the Canva blog to see if you can recognize the company with its brand logo.



A collage showing the logos of brands that are popular worldwide

1. Marketingmo. (n.d). *Marketing guides: Brand strategy*.

Below is a list of some brands that have become so popular that they are used to refer to common products.[2] 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.
- Chapstick is a brand name of a 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.
- What we refer to as a "Band-Aid" is actually a 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

Try this interactive exercise related to company brands. Using the 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/understandingbusiness/?p=281#h5p-19

2. Mertes, A. (2022, December 5). *34 brand names you casually use without even realizing they're brand names.* Retrieved from https://www.qualitylogoproducts.com/blog/brand-names-generic-terms/

Branding Strategies

Companies can adopt one of three major strategies for branding a product:[3]

1. With **private branding** (private labelling 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 Walmart 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 and 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 in 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 (Costco), Great Value (Walmart)	Paracetamol (the generic version of Tylenol or Panadol)	Coca-Cola, Nike

Branding is used in hotels to allow chains like Marriott, Hyatt, and Hilton to offer hotel brands that meet

3. Skripak, S. & Poff, R. (2020). *Fundamentals of Business*, 3rd edition. Pamplin College of Business. Virginia Tech Publishing.

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 travelling 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 travellers. 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 travellers with less price sensitivity. They achieve loyalty status and perks while travelling, 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.[4]

When consumers have a favourable 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 a 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 colour 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:[5]

- *Advertising:* Packaging and labelling can be used to convey an advertising message.

4. Skripak, S. & Poff, R. (2020). *Fundamentals of Business*, 3rd edition. Pamplin College of Business. Virginia Tech Publishing.

5. Chesshir, H. (2024, June 6). *Benefits of utilizing custom packaging labels.* Paramount Global.

- *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.

Media Attributions

"Brands" by B. Jordan on Flickr; CC BY.

8.7: THE 4 PS: PRICE AND PLACE

The Second P—Price

The second P in the four Ps of marketing is price. Naturally, a 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 a number of 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 one way by which Indigenous populations can preserve their cultural identity. A global marketplace for Indigenous arts, handicrafts, and tourism has been 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.

Watch the Indigenous Lifeways in Canadian Business "Authenticity & Indigeneous Products" video.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=284

Transcript of "Authenticity & Indigeneous Products" video [PDF–New Tab]. Closed caption available in video player.

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The Third 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 lot is involved in getting a product to the place from which 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, the "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.

8.8: THE FOURTH 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 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.

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"? Both are hotel chains that have been quite successful in the hospitality industry, but they project very different images to appeal to different clientele. 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."[1] Motel 6, by contrast, characterizes its facilities as "no frills" and assures you that you'll pay "the lowest price."[2]

Promotional Tools

Advertising

Advertising is paid, non-personal communication designed to create an awareness of a product or company.

1. The Ritz-Carlton Hotel Company LLC (2024). *The gold standard: About the Ritz-Carlton.*

2. Motel6 (2024). *Motel6: About us/FAQs.*

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.[3] 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 that's 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.[4] 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/understandingbusiness/?p=288#h5p-20

3. Adfuel Inc. (2024, June 27). *The daily ad exposure: How many ads does the average person see each day?*

4. Simpson, J. (2022, April 14). Finding brand success in the digital world. *Forbes*.

Personal Selling and Direct Marketing

Personal Selling



Personal selling: Realtor handing keys to a 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 and 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, catalogues, 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., Starbucks Rewards)
- 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 either 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 favourable 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 were polled about corporate reputation to determine the final list.[5]

5. Pietroluongo, L. (2024, April 19). *What are Fortune's most admired companies in 2024?* Net Reputation. Retrieved from https://www.netreputation.com/what-are-fortunes-most-admired-companies-in-2024

Digital and Social Media Marketing



Customer engagement through social media

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.

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 can drive more traffic to the website.
- Customer engagement: Improving customer engagement and customer service by connecting with customers and potential customers in a 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.

Media Attributions

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8.9: 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:[1]

- 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.
- 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, Spotify, or Starbucks? 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 e-commerce activities.[2]

Refer to Table 8.4 for key actions taken by Amazon, Nike, and Starbucks to retain customers.

1. Kiniulis, M. (2021, June 6). *Customer acquisition vs. customer retention: What does the data say?* Markin Blog

2. Binns, R. (2023, February 22). *Amazon CRM case study.* ExpertMarket.

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.

CAREER SPOTLIGHT

Jesse Michael



Jesse Michael

Jesse Michael is the Senior Vice President, Digital Solutions at Jones Lang Lasalle, where he partners with retailers, retail property owners, venture capital and private equity firms, and internal teams to provide thought leadership on innovative business and planning processes, technology innovation, and strategic implementation/scaling across multiple organizational departments.

Jesse has 15+ years of experience in the technology industry, having built and scaled his own company. He was also a part of various leadership teams that led companies through different stages of funding, from the initial seed money to Series A, B, and C rounds.

Series A, B, and C rounds are stages of funding for startups, where Series A is the first major round to scale the business, Series B is for growth and expansion, and Series C is for further scaling and development.

Jesse was previously the Managing Director at Adeptmind. He helped the company secure $6.2 million in Series A funding and managed all operations, engineering, and revenue. He also built strong connections with retail and property tech investors, as well as over 200 owners and retail landlords worldwide.

Jesse was the Managing Director at Stocard (Klarna) and Senior Sales Director at Flipp. He formed partnerships with major retailers and consumer goods companies in North America, helping to raise $15 million in Series B funding in 2013 and $61 million in Series C funding in 2016.

“Sales and marketing are the lifeblood of any startup—no matter how great your product is, if no one knows about it or understands its value, it won’t survive.

These functions don’t just drive revenue—they build brand, validate demand, and create the momentum every young company needs to grow. More specifically, our marketing function plays a critical and strategic role in sales enablement, especially in a company where resources are limited and alignment is essential.

In short, sales closes deals, but marketing opens doors, provides the map, and clears the path. When the two are tightly aligned, the result is a more efficient, scalable, and successful go-to-market engine—exactly what a startup needs to gain traction and grow.”

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CAREER SPOTLIGHT

Trish Almgren



Trish Almgren

As a product marketer and Conestoga College alumnus, Trish Almgren is a subject matter expert for a company that provides networking and cybersecurity products and solutions. Due to the highly technical nature of security and networking, she translates technical benefits and features into value for the customer, regardless of the medium.

She works with many stakeholders, such as field marketing, technical and non-technical sales teams, and channel marketing, helping them position the company's products and solutions, overcome objections, and build programs and campaigns that can increase pipeline and customer acquisition.

Trish helps localize the message in different regions throughout Europe, the Middle East, Africa, and Asia, adjusting for cultural and regulatory differences.

As a subject matter expert, she spends a lot of time with customers, prospects, and channel partners, explaining how the company can help solve some of their biggest challenges while also testing messaging and increasing insights around market dynamics.

"Product marketing sets the foundation for the rest of the marketing functions to execute successfully and therefore requires strong collaboration and stakeholder management skills. It's strategic and fast-paced, and no two days are the same. It has afforded me many opportunities, including visiting more than 30 countries and relocating to two different European countries from Canada. I am incredibly proud of the launchpad Conestoga gave me as a marketer."

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CHAPTER REVIEW

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. An organization's **marketing strategy** consists of two major elements: determining its target market and developing a marketing mix to meet the needs of that market.
3. 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.
4. **Strategic marketing planning** involves setting goals and objectives, analyzing internal and external business factors, product planning, implementation, and tracking progress.
5. 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.
6. A **target market** is the group of people who are most likely to buy your product or service.
7. **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, behavioural, and psychographic.
8. The **consumer buying process** involves five steps: Need recognition, information search, evaluation of alternatives, purchase or no-purchase decision, and post-purchase evaluation.
9. **Brand strategy** shapes the overall experience customers have with your company, defining its values, promises, and personality. Strategies include private branding, generic branding, and manufacturer branding. When consumers have a favourable experience with a product, it builds brand equity. If consumers are loyal to a product over time, it enjoys brand loyalty.
10. **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 colour choice, style of lettering, and many other details.

11. **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).
12. **Product,** the first "P" of the marketing mix, refers to both products and services.
13. **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.
14. **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.
15. **Promotion** is the fourth of the "4Ps" of marketing. The goal of promotion is to create a message that resonates with customers and encourages them to purchase a product.
16. The **promotional mix** is the means by which a company communicates with its customers and may include advertising, social media, email marketing, personal selling, public relations, and more.
17. **Advertising** is paid, non-personal communication designed to create an awareness of a product or company.
18. **Personal selling** refers to one-on-one communication with customers or potential customers.
19. **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.
20. **Sales promotion** is a marketing strategy that uses temporary offers or campaigns to increase sales, encourage customer loyalty, or build brand awareness.
21. **Public relations** (PR) refers to the management of how others perceive a person, brand, or company.
22. **Digital marketing** is promotion through digital platforms, including websites, search engines, and social media. It includes all the marketing efforts that use digital channels to promote products, services, or brands.
23. **Social media marketing** is the practice of including social media as part of a company's marketing program.
24. 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.

Download the "Chapter in Review" for Chapter 8: Marketing Management [PDF].

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 by 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 or any another site that offers a SWOT analysis for Walmart. 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. **Promotional Strategy.** Visit the Sephora website (if you are 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.

5. **Promotional Tools and Techniques.** Visit The Running Room Canada. 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.
6. **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.
7. **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.
8. **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.
9. **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.
10. **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.
11. **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.
12. **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/understandingbusiness/?p=294#h5p-21

Additional Resources

- The Marketing Plan: Three Phases. YouTube Video.
- 50 Famous Logos with Hidden Meaning.
- 50 Largest Marketing Companies in the World.
- Marketing Mix: 4Ps (with Real World Examples). YouTube Video.
- Amazon Marketing Strategy. YouTube Video.
- Top 10 Misleading Marketing Tactics. YouTube Video.
- Unethical Marketing Practices (Keyword Stuffing, Dark Patterns, and More). YouTube Video.
- Sale of Goods Act (Ontario).
- Canadian Advertising/Marketing Laws.
- Advertising and Marketing Basics. Federal Trade Commission (US).
- Canadian Marketing Association (CMA)
- American Marketing Association (AMA)
- Product Life Cycle in Marketing. YouTube Video.

- Match Companies with Their Brands (Game)

Attributions

This chapter compiles content from various Open Educational Resources (OER). For details, please refer to the Attributions page.

CHAPTER 9: HUMAN RESOURCE MANAGEMENT

CHAPTER PREVIEW

Human resource management (HRM) is an approach to managing people in an organization, encompassing processes such as human resource planning, recruitment, training, performance appraisal, and compliance with key legislation. This chapter explores the importance of inclusion, diversity, equity, and accessibility, factors crucial for employee retention, various compensation methods, and reasons for employment termination, providing a comprehensive overview of HR practices that contribute to a desirable workplace.

Learning Objectives

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. Explore the recruitment and selection process.
4. Describe how companies train and develop their employees.
5. Outline the three-step performance appraisal process.
6. Express the importance of inclusion, diversity, equity, and accessibility as business practices and their value to a company.
7. Discuss factors that are crucial in employee retention and contribute to an organization being a desirable workplace.
8. Identify ways in which companies compensate employees for their work.
9. List reasons for voluntary and involuntary employment termination.

9.1: 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 labour 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.



A busy Starbucks location in 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, an American businessman best known for transforming Starbucks into a global coffee empire, employees 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 it's crucial for Starbucks to 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.

1. Starbucks. (2016). *Working at Starbucks.*

Media Attributions

"Starbucks, Seattle, Coffee image" by iccmande, used under the Pixabay license.

9.2: 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 harbour, 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:

- **Analyze organizational objectives and strategy.** Understand business goals to 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.
- **Assess the 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.
- **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.
- **Develop HR strategies.** Plan for hiring new talent or promoting from within to meet staffing needs. Identify 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.
- **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.).

- **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 the 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.
- **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.[1] Thus, the firm's HR managers look for people who are "adaptable, self-motivated, passionate, creative team members."[2] 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*).[3]

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 whether 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).

---

1. Starbucks. (2016). *Working at Starbucks.*

2. Fortune. (2007). *100 top MBA employers*. Retrieved from http://archive.fortune.com/magazines/fortune/mba100/2007/full_list/index.html

3. Cruise International. (n.d.). *The Norwegian Dawn.* Retreived from http://www.cruise-international.com/cruise-search/

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 labour costs while reducing the risk of both understaffing and overstaffing. By accurately forecasting workforce needs, HR can effectively manage budgets, prevent staffing shortages, and ensure compliance with labour laws and regulations, thus mitigating operational risks.

9.3: THE RECRUITMENT AND SELECTION PROCESS

The recruitment and selection process is a strategic approach to finding, attracting, 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 typically involves the following stages:

Recruitment Process:

- Job analysis and planning
- Sourcing candidates

Selection Process:

- Screening and shortlisting
- Interviews
- Reference and background checks
- Job offer and negotiation
- 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 seeks 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 their employees to perform. 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? Basically, you can look in two places: inside and outside your own 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 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. 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:[1]



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 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

1. Thompson, C. (n.d.). *In Focus: Target your recruitment market.* Retrieved from http://www.net-temps.com/recruiters/infocus/article.htm

- 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. In fact, the best source of quality applicants is often the company's own labour force.[2]

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.

2. Lee, D. (2006). *Your first task as a recruiter: Recruit senior management onto your team*. HumanNature@Work.

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 is just one of the many career sites that allows members to search for contacts and network with other professionals in their fields.

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.[3]



LinkedIn is the most popular social network for professionals.

3. LinkedIn. (n.d.). *About LinkedIn.*

Nearly 90% of recruiters report hiring someone from LinkedIn. [4] 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.[5]

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. 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. The steps in the employee selection process and the accompanying hurdles at each step are shown in Figure 9.1.

4. Haiilo. (2023, January 9). Social media recruitment: The ultimate guide.

5. Baloun, S. (2024, January 17). *Redefining recruitment: How to excel at social media recruiting in 2024.* SocialPilot. Retrieved from https://www.socialpilot.co/blog/social-media-recruiting

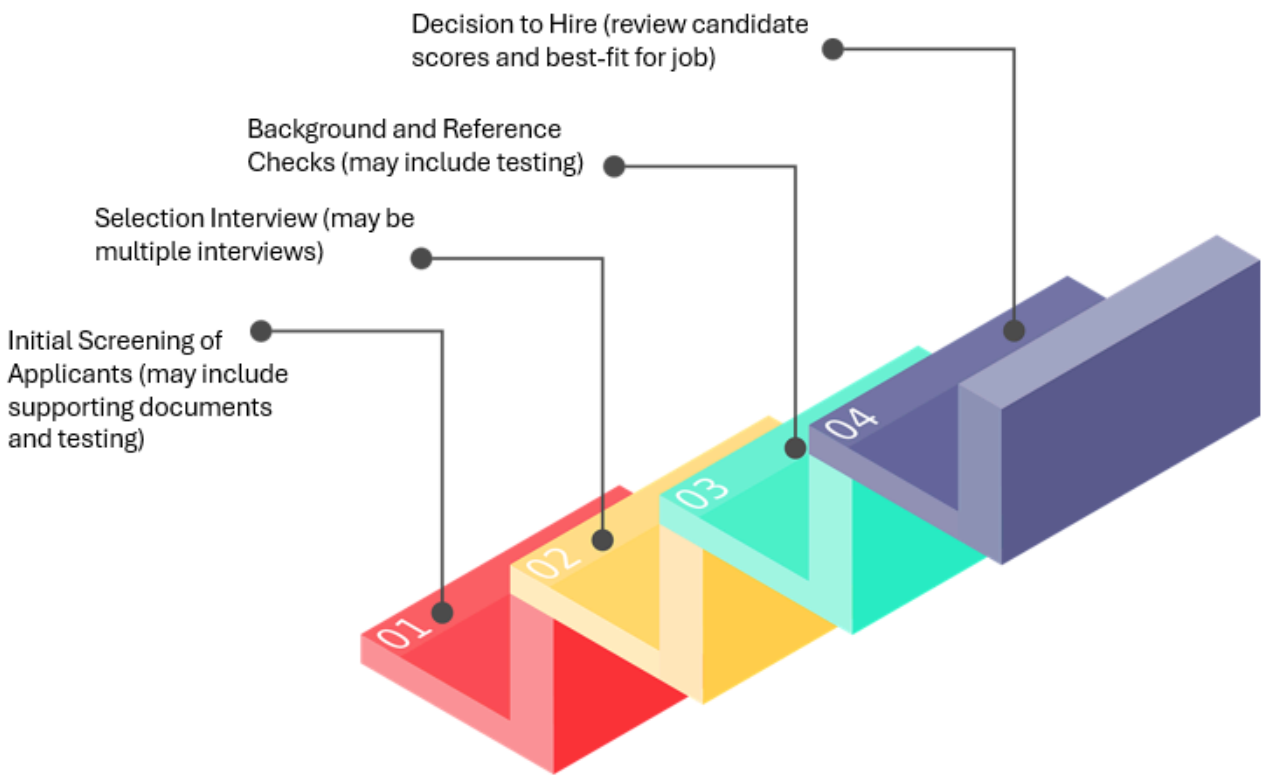


Figure 9.1: Steps in the Selection Process [See image description.]

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, behaviour, performance, and productivity), and knowledge and skills (math, verbal, data entry, software proficiency).[6] 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 McDonald's 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.[7]

Another example is the Ford Motor Company. 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 that includes numerical 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 uses professional psychometric tests at various stages of the hiring process, the company quickly determines the most suitable candidates for particular roles.[8]

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 colour, hair, height, and weight. When you take a course in career planning, you will learn how to complete a successful interview.

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6. Wonderlic. (n.d.). *The Wonderlic personnel tests*. Retrieved February 8, 2018 from https://www.wonderlic.com

7. Malguri, A. (2018, March 30). *Twenty-five companies that use psychometric testing for hiring.* Blog Mettl.

8. Malguri, A. (2018, March 30). *Twenty-five companies that use psychometric testing for hiring.* Blog Mettl.

Do I Need Physical Exams and Drug Testing?



Eye exam for work (a bona fide requirement for certain industries)

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 a policy for the promotion of workplace safety.[9] 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

9. Vacaflor, C. (2023, October 25). *Pre-employment drug testing in Canada: An employer's guide.* Peninsula Group Limited.

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 successfully completes 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.

Media Attributions

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"Linkedin, Online, Success royalty-free stock illustration" by tiffanytlcbm, used under the Pixabay license.

"Figure 9.1: Steps in the Selection Process" is reused from Chapter 11: Human Resources Management in Business Fundamentals, 1st Edition, © Kerri Shields, licensed under CC BY-NC-SA.

Eye test, Ophthalmology, Man image by newarta, used under the Pixabay license.

Image descriptions

Figure 9.1

A diagram illustrating a four-step hiring process, depicted as a series of interconnected, ascending steps. Each step is a different colour and numbered and corresponds to a step in the process. Above each step, there is text outlining each step, linked to the step by a black line. The steps are as follows:

Step 01 (red): Initial Screening of Applicants (may include supporting documents and testing)

Step 02 (yellow): Selection Interview (may be multiple interviews)

Step 03 (cyan): Background and Reference Checks (may include testing)

Step 04 (purple): Decision to Hire (review candidate scores and best-fit for job)

[back to figure]

9.4: 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:[1]

- Anxiety
- Confusion
- Loneliness
- Imposter syndrome
- Stress and exhaustion

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:[2]

- 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

Initially, when an employee is hired, the organization uses an **orientation program** to introduce the employee

1. Recruiters. (n.d.). *Starting a new job? These five feelings are completely normal.*

2. HRM Handbook. (n.d.) *Avoiding the onboarding pitfalls: 12 worst practices that hinder new employee success.*

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 the perfect time 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:[3]

- Case studies
- Coaching/mentoring
- Technology-based learning (eLearning)
- Instructor-led training

3. Gore, E. (2023, February 9). *7 types of training methods (and how to choose).* Elm Learning.

- Interactive training
- On-the-job training
- Video-based training

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 for the year 2023, companies spent $954 per employee for training, and the average hours of training each employee received were 57. Services organizations spent the most per learner ($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 were new categories added in 2023, and they came in at 7 percent.[4]

Canadian firms invest modestly in training—an estimated $240 per employee annually—and lag behind their international peers in rates and hours of instruction. Larger firms are more likely than smaller firms to provide training. Employers in utilities, finance and 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.[5]

Compliance Training

Compliance training covers the standards for a healthy working environment and teaches safety and accident prevention procedures.

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4. Freifeld, L. (2023, November 14). *2023 training industry report.* TrainingMag.

5. LMIC. (2023, March). *Employer-sponsored skills training: A picture of skills training opportunities provided by Canadian employers.*

Planning an Effective Employee Training Program

Watch the YouTube video below, "Planning an Effective Employee Training Program," to learn about how a business can train its employees and specifically provide compliance training for employees.



One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=313#oembed-1

Transcript for "Planning an Effective Employee Training Program" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: HR360 Inc. (2018, November 9). *Planning an effective employee training program* [Video]. YouTube.

9.5: 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, and 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 favourite task?[1]

Purpose

Performance appraisals serve multiple purposes:

1. Heathfield, S. (2019). *Performance appraisals don't work: The traditional performance appraisal process.* LiveAboutDotCom.

- 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.[2]

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.[3]

"It should be no surprise that tech companies like Google and Netflix are among the adherents to 360

2. Archer North & Associates. (2010). *Reward issues.* Retrieved from http://www.performance-appraisal.com/rewards.htm

3. OneAdvanced. (2024, August 12). *8 reasons why 360-degree feedback fails.*

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."[4]

Media Attributions

"Serious ethnic psychotherapist listening to clients complains" by Alex Green, used under the Pexels license.

4. G360 Surveys. (n.d.). *Examples of companies that use 360-degree feedback.*

9.6: 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.

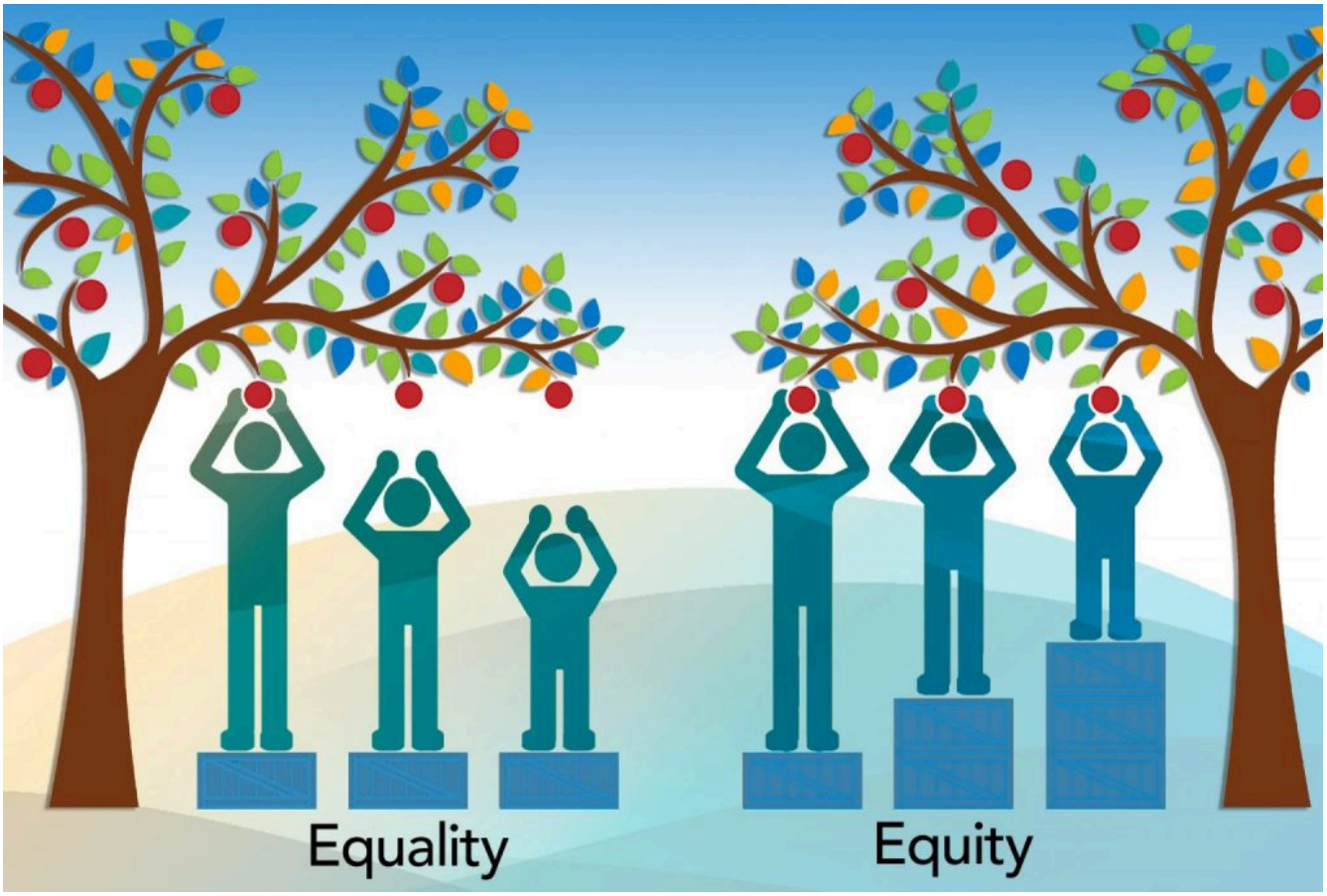
Most companies today strive for diverse workforces. HR managers work hard to recruit, hire, develop, and retain a diverse workforce. In part, these efforts are motivated by legal concerns: discrimination in recruiting, hiring, advancement, and firing is illegal under federal law and is prosecuted by 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.[1]

1. General Assembly. (2020, May 24). *What's the difference between diversity, inclusion, and equity?*



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 attributes, including ethnicity, race, colour, religion, age, gender and sexual orientation.[2]

Inclusion

Inclusion refers to taking into account differences among individuals and groups when designing something

2. Andersen, N. (2022, September 2). *Enhancing inclusion, diversity, equity and accessibility (IDEA) in open educational resources (OER).* University of Southern Queensland.

(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.[3]

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:[4]

- 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 was composed of males.[5] 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 behaviours. 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.

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3. Andersen, N. (2022, September 2). *Enhancing inclusion, diversity, equity and accessibility (IDEA) in open educational resources (OER).* University of Southern Queensland.

4. SeeWriteHear. (n.d.) *What is accessibility?*

5. Usalcas, J. & Kinack, M. (2017, January 16). *History of the Canadian Labour Force Survey, 1945 to 2016.* Statistics Canada.

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 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.

Watch the Indigenous Lifeways in Canadian Business "Corporate Indigenous Inclusion" video.



One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=320

Transcript of "Corporate Indigenous Inclusion" video [PDF–New Tab]. Closed captioning is available in the video player.

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9.7: 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 the needs and wants of many different employees. 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.

Every year, Great Place to Work® compiles a list of the best places to work in Canada. Some of the companies on the 2024 list of best workplaces include Cisco, SAP, Deloitte, ATB Financial, KPMG, TD Canada Trust, FedEx Express Canada, RBC, and Sun Life.[1]

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

1. Great Place to Work. (2024). *Best workplaces in Canada in 2024*.

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. The benefit of this practice is 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** is the practice of adding tasks that increase both responsibility and opportunity for growth. It provides the kinds of benefits that, according to Maslow and Herzberg, contribute to job satisfaction: stimulating work, sense of personal achievement, self-esteem, recognition, and a chance to reach one's 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 that were 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 terms such as administrative assistant instead of secretary.[2]

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.

2. Kerka, S. (1995). *The changing role of support staff*. Retrieved from http://www.calpro-online.org/eric/docgen.asp?tbl=archive&ID=A019

Work-Life Balance



Work-life balance is essential for a happy and fulfilled life

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.[3]

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.[4]

Remote Work

Remote work, also known as **telecommuting**, means that you regularly work from home (or from some other

3. Business Faculty from Ontario Colleges and eCampusOntario Program Managers (2018). *Fundamentals of Business: Canadian Edition.* eCampus Ontario.

4. Business Faculty from Ontario Colleges and eCampusOntario Program Managers (2018). *Fundamentals of Business: Canadian Edition.* eCampus Ontario.

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.[5]

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

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5. Bush, O. (2024, November 4). *Working from home statistics in Canada.* Made In Ca.

support 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.[6]

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 centres, 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.

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6. Yerema, R. & Leung, K. (2018). *KPMG LLP: Recognized as one of Canada's top 100 employers (2019).* Retrieved from https://content.eluta.ca/top-employer-kpmg

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.[7]

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, counselling, 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

7. Yerema, R. & Leung, K. (2018). *BASF Canada Inc.: Recognized as one of Canada's top 100 employers (2019).* Retieved from https://content.eluta.ca/top-employer-basf-canada

Network and a Special Parents Network, offering support 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 an organization, and is 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.[8]

Elements of Work Culture Employees Care About

Research from the MIT Sloan School of Management and CultureX based on Glassdoor data identified some common elements of work culture that employees care most about the most:[9]

8. Heinz, K. (2024, May 21). *What is work culture? 12 ways to build a positive environment.* BuiltIn.

9. Heinz, K. (2024, May 21). *What is work culture? 12 ways to build a positive environment.* BuiltIn.

- Feeling respected
- Having supportive leadership
- The alignment between leaders' actions and the company's core values
- Benefits
- Perks and amenities
- Opportunities for learning and professional development
- Job security

People generally experience workplace culture most strongly through their employers' approach to performance, recognition and celebrations and company mission and values. These foundational elements of work culture involve making sure employees feel their individual contributions are valued and their voices are being heard.

Toxic Work Culture

Researchers have pinpointed six key signs that a work culture is toxic:[10]

- Treating employees and colleagues with disrespect.
- A lack of diversity or a failure to include and promote people from all backgrounds.
- Unethical behaviour, 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

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"Girl In Red Dress Playing A wooden Blocks" by cottonbro studio, used under the Pexels license.

10. Chen, R. (2024, November 22). *Positive work culture examples: How to create a supportive and engaging environment.* BucketList.

9.8: 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 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.[1]

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

1. Indeed Editorial Team. (2024, July 23). *Wages vs. salary: Differences, advantages, and disadvantages.* Indeed.

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".[2]

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 favours 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.[3]

Stock-Option Plans

WestJet's compensation plan also gives employees the right to participate in the 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

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2. Cisco. (n.d.). *Benefits and perks.*

3. Canadian Tire. (n.d.). *Distribution center careers.*

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, and they have a stronger incentive to add value to the company (and drive up its stock price). Starbucks has a video explaining its employee stock option program on this webpage.[4]

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. [5]

Many workers receive 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:[6]

- 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)

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4. Starbucks. (n.d.). *About bean stock.*

5. Canada Life. (2021, December 1). *Insights & advice.*

6. MaRS. (n.d.). *Employee benefits and benefits packages: What Ontario employers should know.* MaRS Startup Toolkit.

- Limiting carry-over of unused sick days

9.9: 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.[1]

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:[2]

- Needing more of a challenge
- Seeking 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

1. Smith, G. P. (2017). *5 tips to attract, keep and motivate your employees.* Retrieved from http://www.businessknowhow.com/manage/attractworkforce.htm

2. Indeed Editorial Team. (2024, September 9). *16 reasons why employees choose to leave their jobs.* Indeed.

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 behaviour, 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 in advance 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.

CAREER SPOTLIGHT

Kristin Mueller



Kristin Mueller

As an HR freelancer, Kristin provides outsourced HR support for companies that don't have an in-house HR resource. Start-ups and small businesses leverage her expertise to manage their HR needs—everything from hiring and onboarding to performance management and compliance—at a fraction of the cost of hiring a full-time HR professional.

Kristin takes the HR legwork off their hands, allowing companies to focus on growing their business while ensuring they have the right people strategies in place. With a background in both corporate and start-up environments, she tailors HR solutions to fit each company's unique culture and operational needs. She is also a proud Conestoga alumnus!

"The keys to success, in business and in life, are emotional intelligence skills and excellent communication. Get those skills right, and everything else becomes easier."

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CAREER SPOTLIGHT

Kim Majetic



Kim Majetic

Kim is the Senior Director of Human Resources for Gordon Food Service Canada. With over 25 years of experience in the Food and Beverage industry, Kim worked at Andrew Peller Limited and Maple Leaf Foods before joining Gordon Food Service in 2004. During her tenure, Gordon Food Service has grown exponentially, becoming the largest privately owned foodservice distributor in North America.

Kim holds an Honours degree in Sociology and Political Science, a Postgraduate degree in Human Resources Management, and a Certified Applied Positive Psychology (CAPP) certification. She is passionate about mental health and has developed expertise in organizational development, performance management,

employee relations, succession planning, organizational communication, strategic talent acquisition, diversity, stewardship, and sustainability.

Kim considers herself a proactive and influential change agent who actively encourages the personal and professional growth of all employees by promoting learning opportunities and improving employee engagement. She serves as a strategic human resources partner, aligning business goals with people and resources to achieve optimum business results in an increasingly competitive industry. Her ultimate goal is to contribute to an organization's success by creating a people-centric environment where employees feel valued, motivated, and inspired to achieve greatness.

"Working in Human Resources is about fostering a culture where every employee feels valued, motivated, and inspired. It's incredibly rewarding to see how the strategic alignment of people and resources can drive business success and create a thriving, inclusive environment."

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CHAPTER REVIEW

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 on the basis of a characteristic unrelated to ability.
7. **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.
8. **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.

9. **Contingent workers** are hired to supplement a company's permanent workforce.
10. **Selection** is the process of determining which people in the applicant pool possess the qualifications necessary to be successful on the job.
11. 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.
12. 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.
13. 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.
14. 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.
15. 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.
16. Initially, when an employee is hired, the organization uses an **orientation program** to introduce the employee to the company's people, policies, and procedures.
17. 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.
18. 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.
19. **Equity** is a process that ensures everyone has access to the same opportunities.
20. **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.
21. **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.

22. **Accessibility** is the practice of making information, activities, and/or environments sensible, meaningful, and usable for as many people as possible.
23. 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.
24. **Work-life balance** generally refers to a balance between your personal and work life.
25. 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.
26. 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.
27. Formal **performance appraisals** are conducted on an annual or semiannual basis to discuss and evaluate employees' work performance.
28. **360-degree feedback** ensures employees (mostly managers) get feedback from all directions—from supervisors, reporting subordinates, coworkers, and even customers.
29. **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.
30. **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.
31. **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 behaviour, policy violations, economic factors, and organizational changes.

Download the "Chapter in Review" for Chapter 9: Human Resource Management [PDF].

End-of-Chapter Exercises

1. **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 that was under-represented or over-represented? Why do you think that is? Discuss your findings with your class and/or professor.
2. **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.
3. **Job Description.** Create a job description and job specification for a job of your choice, or your professor's. 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.
4. **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.
5. **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 still one of the best companies to work for today? Who is the current CEO? What did Howard Schultz do wrong? Share your findings with your class and/or professor.
6. **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.

7. **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.
8. **Benefits and Insurance Coverage.** Explore what is offered for student health insurance plans at your college or university. 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.
9. **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.
10. **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.
11. **Research Fortune Global 500 Companies**. Use the Internet to locate one of the Fortune Global 500 companies. 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 than 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/understandingbusiness/?p=332#h5p-22

Additional Resources

- Human Resource Management: Explained in 10 Minutes. YouTube Video.
- Canadian Human Rights Act

- Employment equity
- What is the 'gig' economy? YouTube Video.
- The Surprising Truth About What Motivates Us. YouTube Video.

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CHAPTER 10: FINANCIAL MANAGEMENT AND ACCOUNTING

CHAPTER PREVIEW

Forecasts, budgets, and financial controls help in predicting financial conditions, allocating resources, and monitoring performance to ensure a company's stability and growth.

Let us consider some companies in the tech industry that have been very successful in managing their finances. 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.

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]

This chapter covers funding sources, debt and equity financing, key financial statements, and performance evaluation through ratio analysis.

Learning Objectives

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

1. Explore the role of financial management in strategic planning and budgeting for a

1. Pesqueno, A. (2024, June 18). NVIDIA is now the world's most valuable company, topping Microsoft and Apple. *Forbes*.

2. Liberto, D. (2024, October 16). *Biggest companies in the world by market cap.* Investopedia.

company's financial needs.

2. Explain the importance of forecasts, budgets, and financial controls to a company's financial health.
3. Differentiate between debt and equity financing options.
4. Examine the role of financial and managerial accounting in assessing a business's financial performance and decision-making.
5. Outline the functions of balance sheets, income statements, and statements of cash flows.
6. Describe how to evaluate a company's performance using financial statements and ratio analysis.

10.1: 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, 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.[1]

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 short-term and long-term financial 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.

A financial manager analyzes 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

1. Tobin, J. (2024, October 7). *What does a financial manager do?* Accounting.com

financial needs, 2) developing budgets to meet those needs, and 3) establishing financial controls to see whether the company is achieving its goals.

10.2: 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

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 ahead 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 what will best maximize the company's overall growth and profitability.



A company manager reviewing a budget

Financial Controls

A **financial controller** is 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.[1]

The top four internal controls that reduce fraud losses and improve detection are:

- A robust code of conduct.
- A strong internal audit department.
- Management certifications of financial statements.
- Management reviews of internal controls, processes, accounts or transactions.

Four fundamental, inter-linked building blocks must be in place to ensure good practice in financial management. [2]

- *Accounting records:* Every organization must keep a record of all financial transactions that take place so they can show how funds have been used.
- *Financial planning:* Preparing budgets and cash flow forecasts for projects and programs and for longer-term financing strategies, to ensure successful projects and organizations.
- *Financial monitoring:* Using financial reports to help managers monitor the progress of their projects and take actions to keep things on track; they are also needed for accountability to funders and external stakeholders.
- *Internal control:* A system of checks and balances designed to manage risk, safeguard financial resources from loss due to errors, theft or fraud and protect staff.

1. Khan, F. (n.d.). *Financial controls.* Wall Street Oasis.

2. Finance DPro Starter. (n.d.). The Finance DPro Model.

Financial Control and Management Best Practices,

Watch the YouTube video, "Financial Control and Management Best Practices," to gain an overview of what the term "finance" is all about.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=342#oembed-1

Transcript for "Financial Control and Management Best Practices" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: PM4NGOs. (2024, April 19). *Financial control and management best practices* [Video]. YouTube.

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10.3: BUSINESS FINANCIAL NEEDS

To raise capital for business needs, companies primarily have two types of financing as options: equity financing and debt financing. Most companies use a combination of **debt financing** 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, tolerance for risk, 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.[1]

Debt Financing

Some sources of debt financing are:[2]

- 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.

1. Maverick, J. (2024, June 13). *Equity financing vs. debt financing: What's the difference?* Investopedia.

2. Maverick, J. (2024, June 13). *Equity financing vs. debt financing: What's the difference?* Investopedia.

Equity Financing

Some sources of equity financing are:[3]

- 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 be willing 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:[4]

3. Maverick, J. (2024, June 13). *Equity financing vs. debt financing: What's the difference?* Investopedia.

4. Daddey, F. & Newton, R. (2022). *The Fundamentals of Business: British Columbia Edition 2024.* Douglas College.

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 members, who often have a common interest and receive a share of the 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 Canada Inc., are commercial finance companies, and those that make loans to individuals or issue credit cards, such as PCFinancial, are consumer finance companies. Some, such as General Motors Acceptance Corporation of Canada, Ltd., 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, so poor performance by some firms is usually offset by good performance by others. Mutual funds may be stock funds, bond funds, or 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.

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 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. A number of 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), 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.

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 First Nations, Metis and Inuit (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.

Watch the Indigenous Lifeways in Canadian Business video "Overcoming Entrepreneurial Challenges."

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=345

Transcript of "Overcoming Entrepreneurial Challenges" video [PDF–New Tab]. Closed captioning is available in the video player.

Source: "Overcoming Entrepreneurial Challenges" by University of Windsor, is licensed under CC BY-NC-ND 4.0, available in Indigenous Lifeways in Canadian Business by Russell Evans, Michael Mihalicz, and Maureen Sterling, licensed under a CC BY-NC 4.0 license, except where otherwise noted.

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10.4: 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 it is doing in relation to its expected performance.[1]

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 labour unions) to assist them in assessing a firm's financial performance.

Fields of Accounting

Accountants typically work in one of two major fields.

Managerial Accounting

Management accountants provide information and analysis to decision makers inside the organization in order to help them run it. 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.

1. Gavin, M. (2020, June 2). *5 ways managers can use finance to make better decisions.* Harvard Business School Online.

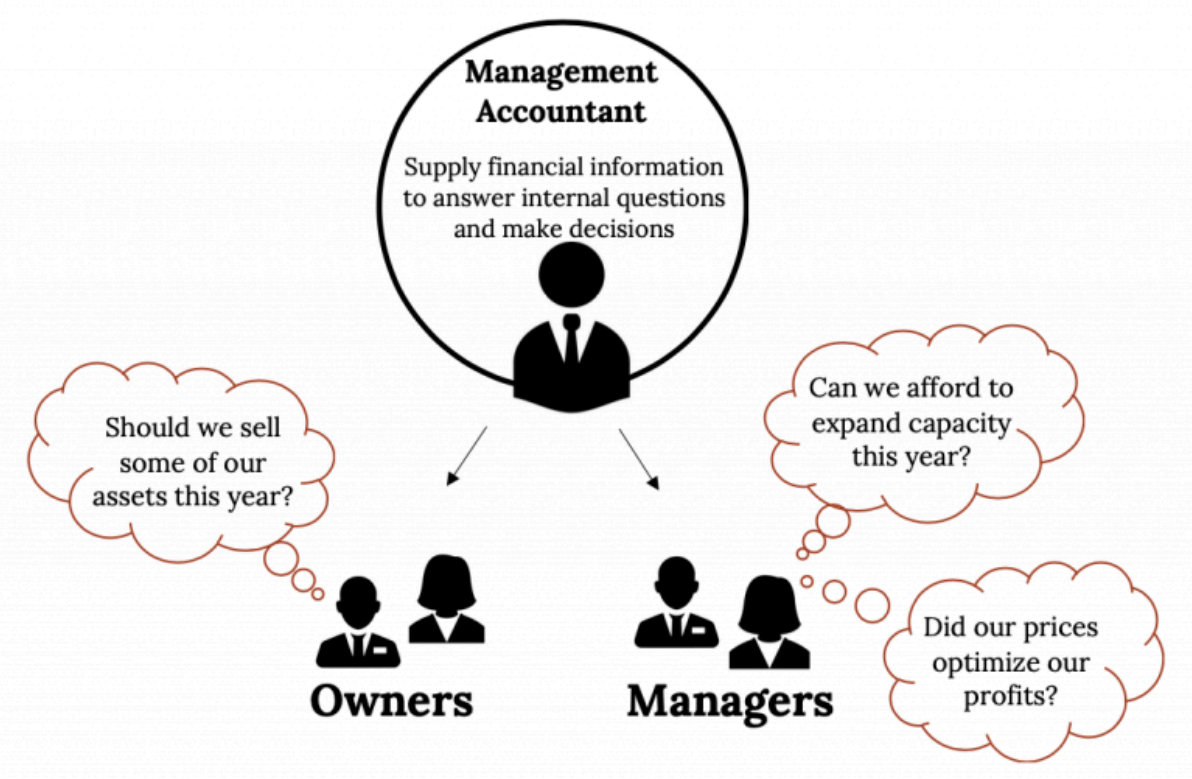


Figure 10. 1: The role of managerial accounting. [See image description.]

Financial Accounting

A **financial accountant** provides information to individuals and groups both inside and outside the organization in order to help them assess the organization's financial performance. Their primary focus, however, is on external parties. In other words, management accounting helps you keep your business running while financial accounting tells the outside world how well you're running it.

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 TSX or 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, including Canada, 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, 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.

In Canada, as of 2011, the Accounting Standards Board (AcSB) 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)[2] also known as Accounting Standards for Private Enterprises (ASPE). Users want to be sure that financial statements have been prepared according to IFRS or Canadian 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 using the same rules, they can be compared from one company to another.

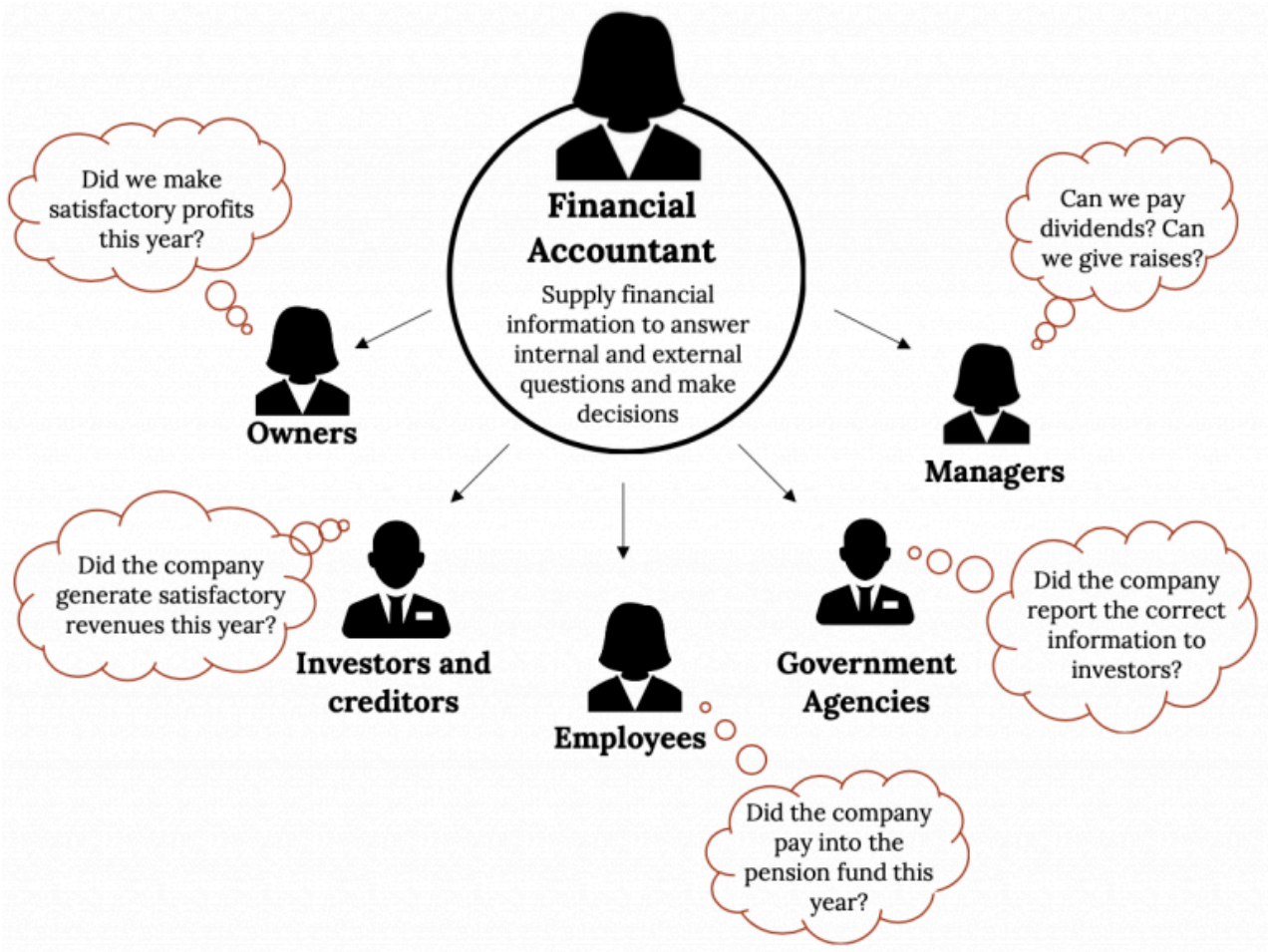


Figure 10.2: The role of financial accounting. [See image description.]

Figures 10.1 and 10.2 illustrate the main users of management and financial accounting and the types of

2. Quickbooks Canada Team. (2020, September 18). *Understanding IFRS and GAAP.* Quickbooks.

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 made 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 a number of government agencies. Publicly-owned companies, for example, the ones whose shares are traded on a stock exchange, must provide annual information forms to the Canadian Securities Administration (CSA), an organization 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 taxation agencies, including the Canada Revenue Agency (CRA).

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 labour unions are interested because salaries and other forms of compensation are dependent on an employer's performance.

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Image descriptions

Figure 10.1

A concept diagram illustrating the role of a management accountant in an organization. At the top, there is a silhouette of a person symbolizing the management accountant, with the caption "supply financial information to answer internal questions and make decisions." Below, two groups labelled "Owners" and "Managers" are depicted with silhouettes of people. Both groups have thought bubbles showing different questions they might have. The owners on the left ask, "Should we sell some of our assets this year?" The managers on the right have two thought bubbles asking, "Can we afford to expand capacity this year?" and "Did our prices optimize our profits?" Arrows connect the management accountant to the owners and managers, suggesting the flow of information.

[back to figure]

Figure 10.2

A concept diagram illustrating the role of a financial accountant and their interactions with various stakeholders. In the center, a silhouette of a person labelled "Financial Accountant" is shown inside a large circle, with text stating their role: "Supply financial information to answer internal and external questions and make decisions." Arrows extend from the accountant to five different groups: Owners, Investors and creditors, Employees, Government Agencies, and Managers. Each group is represented by a figure in silhouette with a speech bubble indicating their primary concern or question. Owners ask about profits, Investors and creditors inquire about revenues, Employees are concerned with pension fund contributions, Government Agencies question the accuracy of company information reporting, and Managers are interested in dividends and raises.

[back to figure]

10.5: THE FUNCTION OF FINANCIAL STATEMENTS

The Three Basic Financial Statements

Since this book is at 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 revenues, expenses, and whether the business made a profit over a specific period of time.
- **Balance Sheet:** Shows assets, liabilities, and equity or the amount invested in a business at a specific point in time.
- **Statement of Cash Flows:** Shows how much cash is coming in and going out of the business over a specific period of time.

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. In fact, 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 actually 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's 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 homes. 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 that 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!

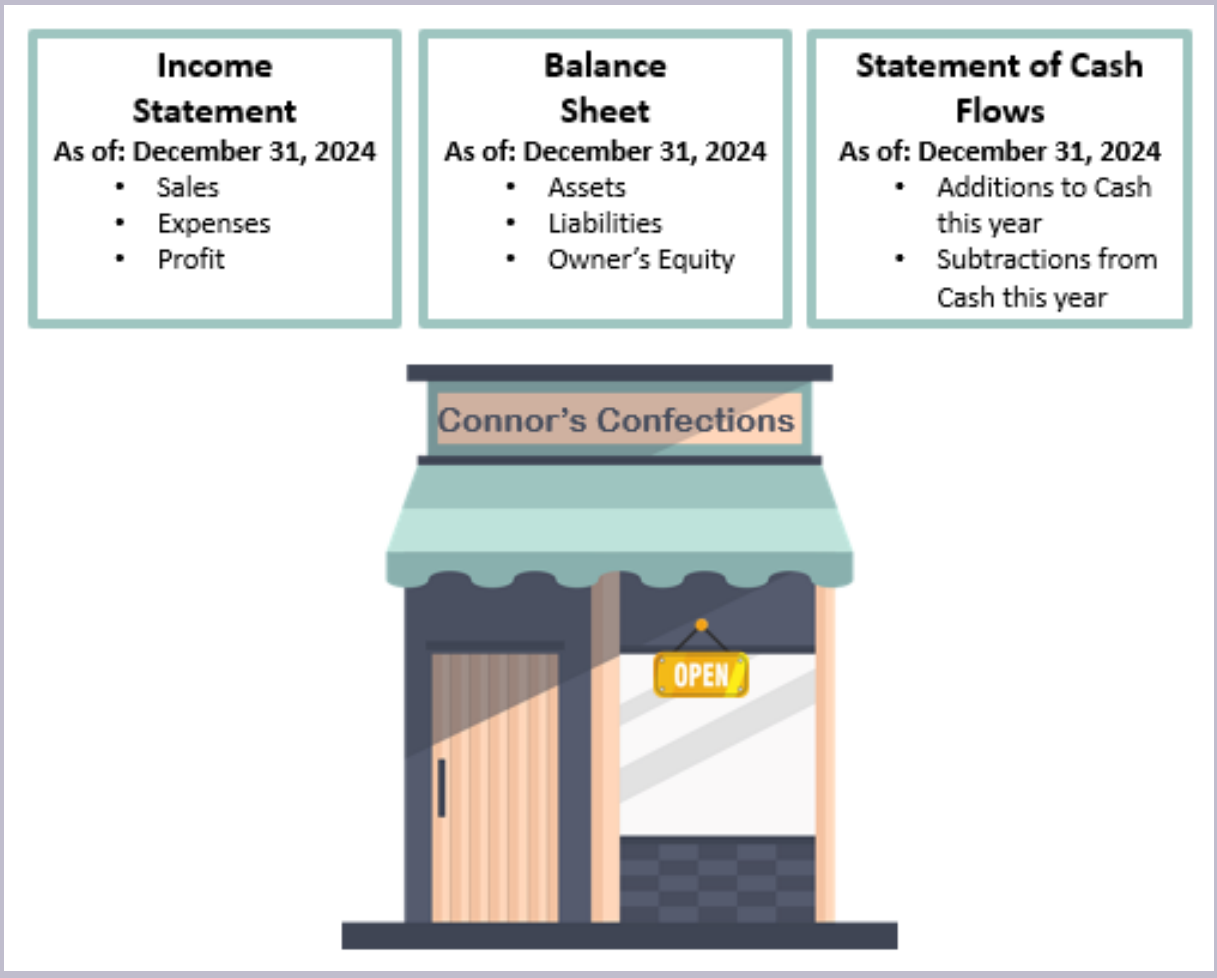


Figure 10.3: Income statement, balance sheet, and statement of cash flows. [See image description.]

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/understandingbusiness/?p=352#h5p-23

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, or 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 labelled "Stress-Buster."

And here's where you stand: 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. In order 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 revenue and the 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.)

Figure 10.4: Income statement — end of the first month of operations

Stress-Buster Company **Income Statement** Month Ended April 30, 2025		
Sales Income (220 x $10.00)		$ 2200
Less Cost of Goods Sold (220 x $7)		1540
Gross Profit (220 x ($10 – $7))		$ 660
Less Operating Expenses		
Salaries	$ 560	
Advertising	40	
Table rental	20	
Total Operating Expenses	$ 620	
Net Income (Profit) ($660-$620)		$ 40

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 is one of the highest expenses for many companies. If you could run your business without the need to hire 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, bringing in revenues or sales of $2,200.
- Each unit that you sold cost you $7, at $2 for the treasure chest plus five toys costing $1 each. So, your cost of goods sold is $1540 (220 units × $7 per unit).
- Your gross profit—the amount left after subtracting the cost of goods sold from sales—is $660 (220 units × $3 each).
- After subtracting operating expenses of $620 – the costs of doing business other than the cost of products sold—you generated a net income 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)

Your income statement tells you how much income you earned over some period of time, but 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 credits (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 come from somewhere—either from investments made by the owners (owners' equity) or from loans (liabilities). This means that the asset section of the balance sheet, on the one hand, and the liability and owner's 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.

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.

Figure 10.5: Balance sheet — as of April 1, 2025, the first day of operations.

Stress-Buster Company

Balance Sheet

As of April 1, 2025

Assets		
Cash		$ 600
Liabilities and Owner's Equity		
Liabilities	$ 400	
Owner's Equity	200	
Total Liabilities and Owner's Equity	$ 600	

Now let's see how things have changed on the balance sheet by the end of the month. Recall that the 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).

Figure 10.6: Balance sheet — as of April 30, 2025 the last day of the first month of operations.

Stress-Buster Company

Balance Sheet

As of April 30, 2025

Assets		
Cash (original $600 plus $40)		$ 640
Liabilities and Owner's Equity		
Liabilities	$ 400	
Owner's Equity ($200 invested by owner plus $40)	240	
Total Liabilities and Owner's Equity	$ 640	

The Statement of Cash Flows

The statement of cash flows 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 statement of cash flows 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.

Typically, the statement of cash flows is reported on a month-to-month basis. However, a statement of cash flow will consolidate the month-to-month cash flow to meet the requirements of the International Financial Reporting Standards.

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 10.7 to review the statement of cash flows for Stress-Buster company for the one-month period ending April 30, 2025. 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 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.

Figure 10.7: Statement of cash flows — end of the first month of operations.

Stress-Buster Company **Statement of Cash Flows** Month Ended April 30, 2025		
Beginning Cash		$ 0
Operating Activities		40
Net Income from Operations (Sales)	$ 40	
Investing Activities		0
Financing Activities		$ 600
Increase in Short-Term Debt	$ 400	
Increase in Retained Earnings	$ 200	
Ending Cash Balance (Net Change)		$ 640

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Image descriptions

Figure 10.3

The image features a small illustration of a storefront labelled "Connor's Confections." The storefront has a light blue awning and an "OPEN" sign hanging in its window. Above it, there are three boxes, each containing a title and bulleted text:

Left box: Income Statement As of: December 31, 2024

- Sales
- Expenses
- Profit

Centre box: Balance Sheet As of: December 31, 2024

- Assets
- Liabilities
- Owner's Equity

Right box: Statement of Cash Flows As of: December 31, 2024

- Additions to Cash this year
- Subtractions from Cash this year

[back to figure]

10.6: 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.[1]

Refer to Figure 10.8, which is an abbreviated financial statement for a highly successful, long-established fictitious multinational technology company called InnoTech Inc. for the year 2025. 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 InnoTech's performance can be obtained.

For example:

- InnoTech sales grew at 12.7% from 2024 to 2025, which is not bad for a company with such a large base of sales already, but certainly not the rapid-growth company it once was. Making yearly comparisons 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 2025, or in other words, for every $5 in sales, InnoTech 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.

1. BDC. (n.d.) *Trend analysis.*

Many other calculations are possible from InnoTech Inc.'s data, and we will look at a few more as we explore ratio analysis.

Figure 10.8: InnoTech Inc. consolidated statements of operations (income statement)

InnoTech Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares, which are reflected in thousands and per share amounts)

	Three Months Ended	
	December 30, 2024	December 31, 2025
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
[1] Includes share-based compensation expense as follows:		
Cost of sales	$ 252	$ 229
Research and development	$ 646	$ 589
Selling, general and administrative	$ 398	$ 438

InnoTech Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares, which are reflected in thousands and per share amounts)

	Three Months Ended	
	December 30, 2024	December 31, 2025
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
[(1)] Includes share-based compensation expense as follows:		
Cost of sales	$ 252	$ 229
Research and development	$ 646	$ 589
Selling, general and administrative	$ 398	$ 438

InnoTech Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares, which are reflected in thousands and per share amounts)

	Three Months Ended	
	December 30, 2024	December 31, 2025
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

Ratio Analysis

How do you compare InnoTech's financial results, shown in Figure 10.9, 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.

Figure 10.9: InnoTech Inc. consolidated statements of operations (balance sheet)

InnoTech Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares, which are reflected in thousands and par value)

	December 30, 2024	December 30, 2025
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	207,994	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

InnoTech Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares, which are reflected in thousands and par value)

	December 30, 2024	December 30, 2025
Total Assets	$ 406,794	$ 375,319

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 62,985	$ 49,049
Accrued expenses	49,662	53,892
Deferred revenue	23,440	17,874
Commercial paper	4,421	4,855
Current portion of long-term debt	27,459	17,799
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		

InnoTech Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares, which are reflected in thousands and par value)

	December 30, 2024	December 30, 2025
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

Here's one set of categories:

- **Profitability ratios** tell you how much profit is made relative to the amount invested (return on investment) 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 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 is that new lenders will approve loan applications.
- **Efficiency ratios** tell you how well your assets are being managed.

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 InnoTech Inc., and now we will look at its EPS. According to the earlier Figures 10.8 and 10.9, InnoTech Inc. saw its EPS increase from $3.38 in 2024 to $3.92 in 2025, which indicates a profit of about 15%, an excellent return for a company that is considered to be already among the world's largest. Well-paid analysts will spend hours to understand how these results were achieved every time InnoTech 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, 2025 (remember that balance sheets reflect a point in time), InnoTech Inc. had $68.5 billion in current assets and $63.5 billion in current liabilities. Simply put, this means that InnoTech Inc. has more money on hand than they need to pay their bills. When a company has a current ratio greater than 1, they are in good shape to pay its bills; companies selling to InnoTech Inc. on credit would not need to worry that it is likely to run out of money.

InnoTech Inc.'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 InnoTech Inc. 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, InnoTech Inc. has far more cushion than the current ratio reflects, even though it already reflects a healthy financial position.

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 InnoTech Inc.'s total liabilities, not just the line on the balance sheet that says long-term debt, because in effect, InnoTech Inc. is borrowing from those it owes but has not yet paid. InnoTech Inc.'s total liabilities at the end of 2025 were $266.6 billion versus owner's equity of $140.2 billion, a ratio of 1.9, which means InnoTech Inc. has borrowed more than it has invested in the business.

InnoTech Inc.'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 InnoTech Inc. has invested $207.9 billion in marketable securities. If it wished to do so, InnoTech Inc. could sell some of those securities and pay down its debts, thus improving its ratio. It's likely that anyone thinking about lending money to InnoTech Inc. and seeing these figures would be confident that InnoTech Inc. has the ability to pay back what they borrow.

Efficiency and Effectiveness Ratios

Efficiency ratios include the inventory turnover ratio, asset turnover ratio, and receivables turnover ratio. These ratios measure how efficiently a company uses its assets to generate revenues and its ability to manage those assets.

There are many more ratios that we could apply to InnoTech Inc. to understand its performance more completely. 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.

CAREER SPOTLIGHT

Amanda Buck



Amanda Buck

Amanda Buck, CFP®, is a Financial Advisor at Edward Jones based in Woodstock, Ontario. Raised in a hardworking, entrepreneurial family with a deep commitment to community service, she learned the value of a strong work ethic and the importance of a career that fosters passion while giving back to others. Amanda graduated from Conestoga College's Business Administration —Financial Planning program in 2022 and earned her CFP® designation in 2024. She is dedicated to understanding her clients' immediate and long-term needs, tailoring her financial advice and plans to protect what matters most to them and help them achieve

their future goals. Her expertise covers retirement planning, wealth transfer, education planning, and family protection.

"Many investors dive into the market without a clear financial plan or defined goals. It's like jumping into a moving car without a map or destination in mind. Investments are just one small piece of the larger financial picture. Having a solid financial plan can ease uncertainty and help you build confidence in your future. Grab your roadmap and start planning how you'll reach your financial destination."

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"Figure 10.9: InnoTech Inc. Consolidated Statements of Operations (Balance Sheet)" is adapted from Chapter 10: Financial Management and Accounting in Business Fundamentals, 1st Edition, © Kerri Shields, licensed under CC BY-NC-SA.

CHAPTER REVIEW

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 controls** are procedures and policies that monitor and manage financial resources to prevent errors, fraud, and optimize allocation.
10. **Financial controllers** are responsible for updating financial controls and overseeing all the accounting activities in an organization.
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 lenders that give out loans and lines of credit such as the Big Five Banks, trust companies, credit unions, online banks, finance companies, insurance companies, brokerage firms, factoring companies, venture capital firms, government financial institutions, 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. **Indigenous small businesses** are faced with a higher number of financial barriers than their non-Indigenous counterparts.
16. The main objective of **managerial accounting** is to assist the management of a company in efficiently performing its functions: planning, organizing, directing, and controlling.
17. **Financial accountants** furnish information to individuals and groups both inside and outside the organization in order to help them assess the organization's financial performance.
18. 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.
19. An **income statement** shows sales, expenses, and whether or not a profit was made.
20. **A balance sheet** shows assets and liabilities, and the amount invested in the business.
21. To prepare a balance sheet, one must first understand the **fundamental accounting equation: Assets = Liabilities + Owner's Equity**
22. **A statement of cash flows or a cash flow statement** shows how much cash is coming in and going out. It 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).
23. **Cost of goods sold** is the total cost of the goods that you've sold.
24. **Operating expenses** refer to the costs of operating your business, except for the costs of things that you've sold.
25. **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."

26. **Debits** increase asset or expense accounts and decrease liability, revenue or equity accounts.
27. **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.
28. 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.
29. A **trend analysis** is done by collecting data at selected times and then plotting any observed changes over longer periods.
30. **Profitability ratios** tell you how much profit is made relative to the amount invested (return on investment) or the amount sold (return on sales).
31. **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.
32. **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 is that new lenders will approve loan applications.
33. **Efficiency ratios** tell you how well your assets are being managed.

Download the "Chapter in Review" for Chapter 10: Financial Management and Accounting [PDF].

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 difference in cost between these two types of 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 of the people 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), 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/understandingbusiness/?p=357#h5p-24

Additional Resources

- Biggest Companies in the World by Market Cap
- How Flexible Financing Can Unlock Your Business Potential
- What is Short-Term Financing?

- What is Equity Financing?
- How Does Debt Financing Work?
- Understanding IFRS and GAAP
- AccountingPlay.com (Apps, Quizzes, Lessons)
- 10 Accounting Games That Make Learning Fun
- Learn Accounting for Free – Accounting Coach
- Break-Even Analysis – How to Calculate Your Safe Point. YouTube Video
- Balance Sheet and Income Statement Relationship. YouTube Video

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CHAPTER 11: OPERATIONS MANAGEMENT

CHAPTER PREVIEW

Operations management is all about making sure everything runs smoothly in a business, whether it's producing goods or providing services. This chapter will explain how products are made, how businesses create value, and how they manage their resources and processes to be efficient and sustainable.

Learning Objectives

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

1. Describe 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 in the manufacturing sector.
3. Show how supply chain, value chain and the circular economy are intertwined.
4. Discuss the role of the operations manager with special regard to production planning, production control, and quality control.
5. Outline the role of production planning in manufacturing operations.
6. Elaborate upon the role of production control in manufacturing operations.
7. Explore the role of quality control in manufacturing operations.
8. List 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. Outline the role of operations planning in service organizations.
11. Elaborate upon the role of operations control in service organizations.
12. Explore the role of quality control in service organizations.

11.1: 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 11.1.

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 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.

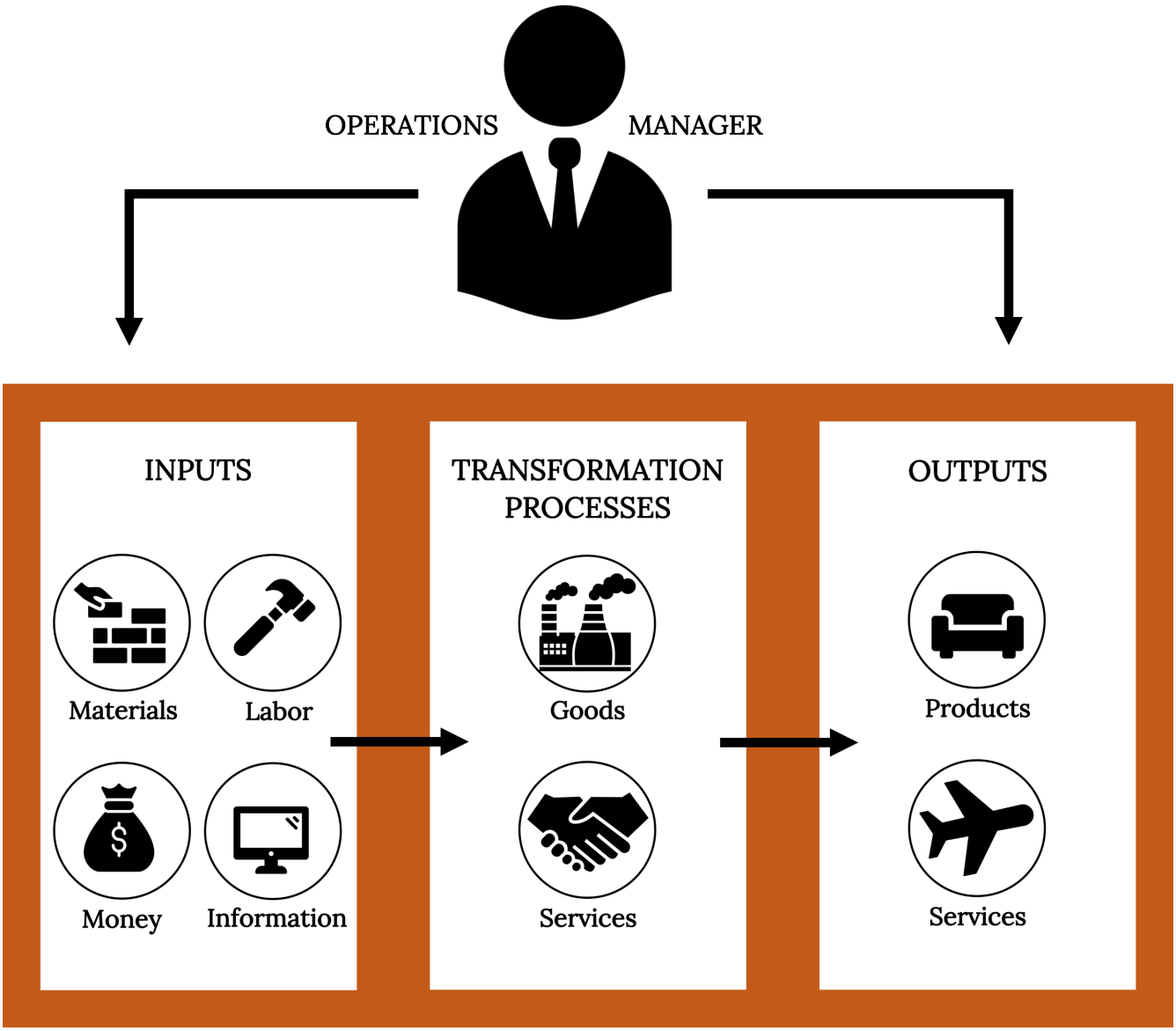


Figure 11.1: The production transformation process. [See image description.]

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:

- *Time utility:* Availability when needed (e.g., seasonal availability of bathing suits)
- *Place utility:* Accessibility (e.g., where are the goods or services available)
- *Form utility:* Design (e.g., does the design or structure of the the goods or services meet the needs of the customer)
- *Ownership utility*: Satisfaction (e.g., benefits of ownership, functional and emotional)

Companies can enhance ownership utility by offering after-sales service, providing financing options, promoting lifestyle benefits and pride of ownership, and allowing buyers to personalize the product to enhance its appeal.

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Image descriptions

Figure 11.1

A flow chart of the production transformation process. At the top is a stylized silhouette of a person labelled "Operations Manager" with arrows pointing downwards to a large rectangular box divided into three sections. The left section is labelled "Inputs" and contains four circular icons: a brick wall labelled "Materials," a hammer labelled "Labour," a bag with a dollar sign labelled "Money," and a computer monitor labelled "Information." The middle section is labelled "Transformation Processes" and includes two circular icons: a factory labelled "Goods" and a handshake labelled "Services." The right section is labelled "Outputs" with two circular icons: a couch labelled "Products" and an airplane labelled "Services." Arrows point rightward from

“Inputs” to “Transformation Processes” and from “Transformation Processes” to “Outputs” and indicate how inputs are transformed into outputs.

[back to figure]

11.2: 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:

- *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 labour, materials, and machinery are used effectively.
- *Resource allocation.* The production process requires inputs such as raw materials, labour, and technology. Operations management allocates these resources to minimize waste and optimize productivity, considering costs and demand forecasts.
- *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.
- *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.
- *Quality assurance.* Operations management integrates quality control and assurance into the production process to ensure the final products meet customer expectations and regulatory standards.
- *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

1. geeksforgeeks. (2024, March 27). *What is operations management? Definition, purpose, benefits, and examples.*

process, ensuring that goods and services are produced efficiently, meet quality standards, and align with customer and market demands.

IKEA's Operations Model

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 10,000 products at competitive prices as it has grown over nearly eight decades.[2] IKEA's reputation has rested on its efficient and effective management of: [3]



An IKEA home furnishings store

- Product and process design
- Inventory
- Quality assurance
- Supply chain networks
- Back-end operations

To maintain its low prices, IKEA must ensure efficient operational management across all levels of the organization—from product design and material sourcing to flat packing, distribution, and adapting to demand fluctuations. The ability to sustain low manufacturing or service costs through streamlined operations is a key factor that distinguishes successful businesses from their competitors.

IKEA has strict requirements around quality, function, and cost when it comes to designing products. To reduce the price of production and distribution, the company uses a ready-to-

2. IKEA. (n.d.). *Where do your products come from?*

3. Faircloth, T. (2021, September 16). *Why IKEA's operations model is so successful*. Chekhub.

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 begins each product design phase by first establishing a target price. To minimize waste and reduce overall costs, the company relies on a standardized production process that uses a limited range of raw materials. Within these constraints, IKEA's designers develop products that meet the brand's core values of affordability, sustainability, quality design, and functionality.

To maintain a competitive edge, IKEA employs a robust forecasting system that anticipates market trends and initiates production planning years in advance. By strategically allocating production based on supplier capabilities and resources, IKEA successfully balances output across its network of third-party manufacturers. Together, these strategies significantly lower per-unit production costs across its vast inventory.

After production, IKEA's operational management oversees the transportation of the final products to a network of automated distribution centers around the globe. The well-designed system ensures cost-effective distribution to the 484 IKEA stores worldwide.[4]

Each retail location functions as both a store and a warehouse. Each IKEA store is supported by both an in-store logistics manager and a store goods manager, responsible for overseeing ordering and material handling, respectively. Working together, they align inventory management with customer demand to optimize profitability. By integrating retail spaces with warehouse functions and adopting a self-service model, IKEA reduces distribution and storage costs, helping it maintain a strong competitive advantage.

IKEA partners with over 1,500 global suppliers in 54 countries to maintain strong, collaborative relationships across its supply chain.[5] By working closely with suppliers and avoiding internal competition between suppliers, IKEA co-develops cost-effective, innovative production methods. This long-term approach reduces costs and enhances value. Through tight control of design, production, and distribution, IKEA keeps prices low while scaling globally—demonstrating the power of efficient operational management.

4. IKEA. (2025). *How we work.*

5. IKEA. (n.d.). *Let's grow together: Become and IKEA supplier*.

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11.3: THE RELATIONSHIP BETWEEN SUPPLY CHAIN, VALUE CHAIN AND THE CIRCULAR ECONOMY

Supply Chain

Components and Activities of the 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 include the following:

- *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 include the following:

- *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.

Characteristics of an Effective Supply Chain

An effective supply chain aims 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.[1]

The Distinction between Supply Chain and Value Chain

Although supply chain and value chain are closely related concepts, they focus on different aspects of a product's lifecycle. 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 11.2: 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 11.2: The Lifecycle of a Cotton T-Shirt.)

Supply Chain Perspectives

The supply chain can be understood in two main ways:

Functional Stages Perspective

This perspective focuses on the *processes* involved in moving a product from concept to customer and includes the following stages:

- *Planning:* Forecasting demand and strategizing operations.
- *Sourcing:* Procuring raw materials or components.
- *Manufacturing (or production):* Converting inputs into finished goods.
- *Distribution:* Delivering products to customers or retailers.
- *Returns (reverse logistics):* Handling product returns, recycling, or disposal.

These stages often overlap and involve coordination among multiple actors.

1. Fernando, J. (2024, June 27). *Supply chain management (SCM): How it works & why it's important.* Investopedia.

Actor-Based Stages Perspective

This perspective focuses on the *participants* in the supply chain and their roles and emphasizes responsibility and interaction among the different entities. It includes stages involving the following participants:

- *Supplier:* Provides raw materials or components.
- *Manufacturer:* Produces finished goods.
- *Distributor:* Moves goods from manufacturers to retailers.
- *Retailer:* Sells products to end consumers.
- *Consumer:* The final user of the product.

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.

Some global companies that are known for their supply chain excellence include Amazon, Apple, Proctor & Gamble and Unilever. 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.

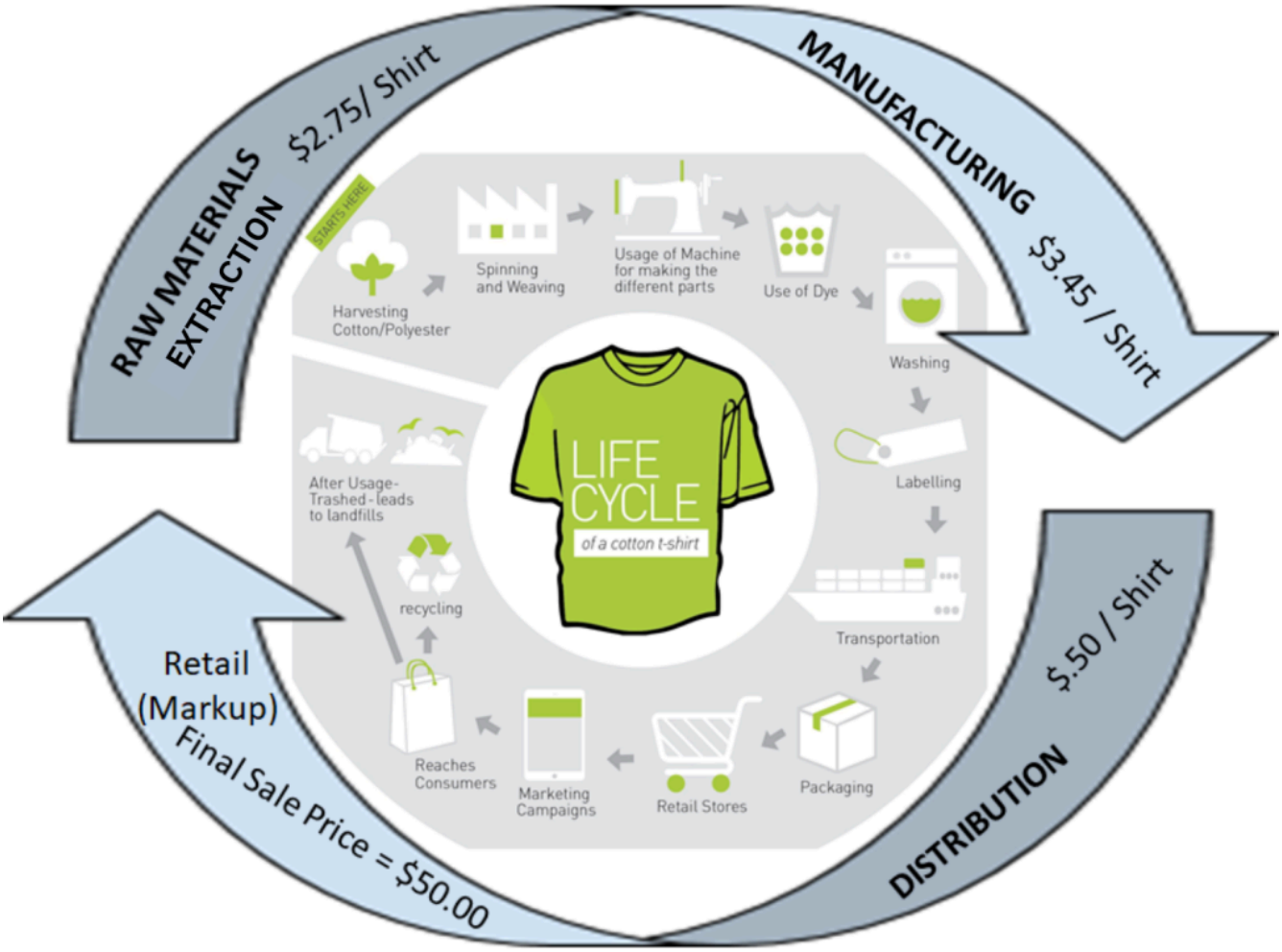


Figure 11.2: The lifecycle of a cotton T-shirt. [See image description.]

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 and remanufacturing, repair, refurbishment, and recommerce, circular economy principles can reduce dependency on scarce resources and component suppliers, building adaptable and resilient supply chains.[2]

For manufacturers, this means ensuring parts and materials within their control never unintentionally

2. World Economic Forum. (2024, February 27). *For manufacturers, the circular economy strengthens supply chains. Here's how.*

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.[3] Companies like IKEA focus on product design and production processes that can be easily disassembled 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.[4]

Over the years fashion consumption habits have been generating alarming amounts of waste. 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.[5]

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.[6]

Creating a Circular Economy for Fashion

Watch 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.

3. World Economic Forum. (2024, February 27). *For manufacturers, the circular economy strengthens supply chains. Here's how.*

4. Patagonia. (n.d.). *Supply chain environmental responsibility program.*

5. World Economic Forum. (2022, May 26). *Circular value chains in fashion: Strengthening trust in second-hand markets.*

6. World Economic Forum. (2024, February 1). *Why businesses must embrace the circular economy to build sustainable success.*

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=371#oembed-1

Transcript for "Creating a Circular Economy for Fashion" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: Financial Times. (2020, January 28). *Creating a circular economy for fashion.* [Video]. YouTube.

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Image descriptions

Figure 11.2

The image illustrates the life cycle of a cotton t-shirt, depicted in a circular flowchart format, with an inner circle for the micro stages and an outer circle for the macro stages. At the center, a green t-shirt labelled "LIFE CYCLE of a cotton t-shirt" is prominent. Surrounding it are various micro stages of the lifecycle in a clockwise direction:

Micro Cycle:

- Harvesting Cotton/Polyester
- Spinning and Weaving
- Usage of Machine for making the different parts
- Use of Dye
- Washing

- Labelling
- Transportation
- Packaging
- Retail Stores
- Marketing Campaigns
- Reaches Consumers
- Recycling OR After Usage – Trashed – leads to landfills

Macro cycle:

- RAW MATERIALS EXTRACTION $2.75 / Shirt
- MANUFACTURING $3.45 / Shirt
- DISTRIBUTION $.50 / Shirt
- Retail (Markup) Final Sale Price = $50.00

[back to figure]

11.4: THE ROLE OF THE OPERATIONS MANAGER

In the context of supply chain, **operations managers** manage the process that transforms inputs into outputs. They ensure that the entire supply chain—from sourcing raw materials to delivering finished products—is efficient, cost-effective, and aligned with business goals.

Their responsibilities can be grouped as follows:

- *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.
- *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.
- *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.

In the sections that follow, we will take a closer look at each of these responsibilities.

Inside the Role of an Operations Manager

Watch the "Inside the Role of an Operations Manager: Key Roles and Responsibilities" YouTube video below to learn about the responsibilities of operations managers.



One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=374#oembed-1

Transcript for “Inside the Role of an Operations Manager: Key Roles and Responsibilities” video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: Laurence Gartside. (2025, March 28). *Inside the role of an operations manager: Key roles and responsibilities.* [Video]. YouTube.

11.5 PRODUCTION PLANNING FOR THE MANUFACTURING SECTOR

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 its 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.[1]

Let's review the specific types of decisions that have to be made in the production planning process.

Decisions about Production Methods

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

1. IE Engineer. (2024, February 12). *What is production planning? Why is it important?*

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, adherence to specific customer requirements, and less chances of unsold products, since manufacturing only begins after receiving firm orders.

The disadvantages of make-to-order production include higher costs due to smaller production runs and customized processes, which can lead to idle production capacity if orders are low, resulting in longer wait times for customers.

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 make them attractive 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. Moreover, overproduction may lead to surplus stock and storage costs.

Mass Customization

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.



Personalized M&Ms are an example of mass customization.

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 the "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&Ms in any colour the customer wants (say, school colours) and 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 11.1 for a comparison of the features of mass production, mass customization, and make-to-order production methods.

Table 11.1: A comparison of production methods

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 Motor 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 the 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, but these are the four common types:

- Process layout
- Product layout
- Fixed-position layout
- Cellular layout



Facility layout at a factory ensures a smooth flow of production

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 Manufacturing Facility Layout exercise.

Capacity Planning

Now that the company has determined a location, the next decision it must make is about the quantity of products that it will produce. Managers begin by forecasting demand for the company's product, which isn't easy. To estimate the number of units that are 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. Having calculated the capacity requirements, managers 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 is difficult. Unfortunately, failing to balance capacity and projected

demand can be seriously detrimental to the firm's bottom line. If capacity is set too low (and so the company produces less than it should), it won't be able to meet demand and will lose sales and customers. If capacity is set too high (and results in more units than needed), the company will waste resources and inflate operating costs. Therefore, continuous review, the process of routinely reviewing the organization's processes to determine where improvements can be made to increase organizational efficiency, is very important in the capacity planning process to avoid producing too much or too little.

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11.6: PRODUCTION CONTROL FOR THE MANUFACTURING SECTOR

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 material makes 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?

Strategic supplier selection is important for the following reasons:

- *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



Procurement: Supplies being shipped

Technology has changed the way businesses buy things. Through modern procurement practices, 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.

If you were a purchasing manager using the Internet to buy parts and supplies, you'd follow basically 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 catalogues, 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 procurement-related decisions. 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, as described in the Five Forces Analysis of Harley-Davidson. Also, decisions about supply chain management take into account supply-related industry and market conditions, such as the trends shown in the PESTLE/PESTEL analysis of Harley-Davidson.[1]

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 labour 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 labour-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 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

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1. Meyer, P. (2024, October 1). *Harley-Davidson operations management & productivity.* Panmore Institute.

- 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. Today many grocery stores use JIT systems to replenish stock based on sales data from its point-of-sale system, reducing wastage 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 is 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. 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 are 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 11.3 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.

Hiking Bear Project

Activity/Day	1	2	3	4	5	6	7	8	9	10	11	12	13
Cut Fur	■	■											
Sew and stuff fur			■	■	■	■	■	■					
Cut material	■	■											
Sew clothes			■	■									
Embroider t-shirt					■	■							
Cut accessories	■												
Sew accessories		■	■										
Dress bears									■	■	■		
Package bears												■	
Ship bears													■

■ Completed work

■ Work to be completed

Lot size: 100 bears
All activities are scheduled to start at their earliest start time

Figure 11.3: Gantt chart for producing teddy bears. [See image description.]

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 11.4 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 moves

through this sequence of steps, the bear's clothes are cut and sewn, and its T-shirt is 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.

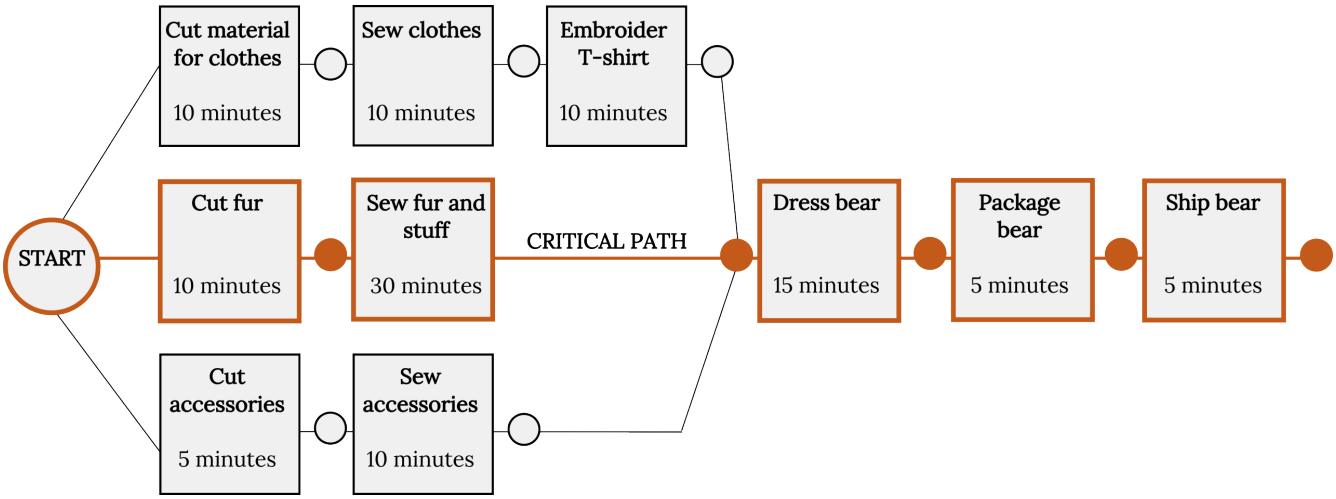


Figure 11.4: PERT chart showing time and activities in making teddy bears. [See image description.]

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"Figure 11.3: Gantt Chart for Producing Teddy Bears" is reused from Example of a Gantt chart for a teddy bear. © 2022 by Kindred Grey, licensed CC BY 4.0.

"Figure 11.4: PERT Chart Showing Time and Activities in Making Teddy Bears" is reused from Example of a PERT chart for a teddy bear. © 2022 by Kindred Grey, licensed CC BY 4.0.

Image descriptions

Figure 11.3

A Gantt chart for the Hiking Bear Project organized with days numbered 1 through 13 along the top and a

list of activities down the left side. The activities include "Cut Fur," "Sew and stuff fur," "Cut material," "Sew clothes," "Embroider t-shirt," "Cut accessories," "Sew accessories," "Dress bears," "Package bears," and "Ship bears." Orange shaded squares indicate completed work, while lighter beige squares represent work yet to be completed. The chart shows that "Cut Fur" starts on day 1 and is completed by day 3, and "Sew and stuff fur" is scheduled for days 4 to 7. Other tasks overlap on different days, indicating when they are planned to start and finish. "Dress bears", "Package bears", and "Ship bears" are marked in lighter beige, indicating "work to be completed". The other tasks are marked with orange shaded squares that indicate "completed work". There's a legend at the bottom left, and an additional note at the bottom right states, "Lot size: 100 bears. All activities are scheduled to start at their earliest start time."

[back to figure]

Figure 11.4

A PERT chart illustrating the production process of a bear. The process begins with a "START" circle on the left, branching into three paths. The top path includes sequential steps labelled: "Cut material for clothes" (10 minutes), "Sew clothes" (10 minutes), and "Embroider T-shirt" (10 minutes). Tasks on the critical path are outlined in orange. The other tasks have e black outline. The path that runs through the middle is identified as the critical path and consists of: "Cut fur" (10 minutes), "Sew fur and stuff" (30 minutes), "Dress bear" (15 minutes), "Package bear" (5 minutes), and "Ship bear" (5 minutes). The bottom path lists: "Cut accessories" (5 minutes) and "Sew accessories" (10 minutes). All elements are connected by arrows indicating the process flow, with some steps linked by small circles suggesting possible intersections or decision points. The flow converges after the sewing of garments, accessories, and the stuffed bear to continue along the "CRITICAL PATH."

[back to figure]

11.7: QUALITY CONTROL FOR THE MANUFACTURING SECTOR

Quality is defined as the degree to which a product or service meets or exceeds customer expectations and adheres to established standards or specifications. It is a multifaceted concept that can be viewed through different lenses, such as product characteristics, customer satisfaction, and continuous improvement.[1]

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 connect to a mobile network and be easy to use for communication purposes. 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)

Examples of quality control in two precision-based industries include:

- *Automotive*: Toyota uses the *Andon* system to stop production immediately when quality issues are detected, integrating lean manufacturing with quality control.[2]
- *Electronics*: Apple's rigorous quality testing includes material durability and product performance tests before market release.[3]

1. OpenAI. (2023). *ChatGPT* (Jan 21 version) [Large language model].

2. Lean Outside the Box. (2024, February 18). *Andon: Meaning, benefits, and examples.*

3. Hutchinson, R. (2024, June 11). *Inside Apple's secret iPhone testing labs.* Geeky Gadgets.

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.[4]

A quality management system (QMS) is a formalized system that documents processes, procedures, and responsibilities for achieving quality policies and objectives. The QMS helps manufacturing companies coordinate and direct activities to meet customer and regulatory requirements.[5]

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. [6]

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 those features to their clientele. 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.

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4. The Investopedia Team. (2024, June 19). *What is total quality management (TQM), and why is it important?* Investopedia.

5. De Lucca Caetano, B. (2024, May 1). *Quality management system (QMS) for manufacturing.* SimplerQMS.

6. CIO. (2022, January 20). *What is TQM? A company-wide strategy for customer satisfaction.*

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 behaviour, discover issues in internal systems, and find solutions for production issues. Statistical process control is often used interchangeably with statistical quality control (SQC).[7]

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



Quality products meet customers' needs.

7. ASQ. (n.d.). *What is statistical process control?*

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.

Media Attributions

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11.8: 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

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 test and simulate these designs under various conditions before manufacturing. Examples of CAD software include AutoCAD, SolidWorks, and CATIA, which are used when engineers design a car part (e.g., a wheel rim) using 3D modelling software.

In an automotive company, CAD is when an engineer designs a part for a car (e.g., a wheel rim) using 3D modelling software.

Computer-Aided Manufacturing

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 Computer Numerical Control (CNC) 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 the exact 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 sends the design to a CNC machine, which uses the instructions to precisely cut the wheel rim from a metal block.

Computer-Integrated Manufacturing

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, as well as 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 integrates the entire manufacturing process 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. However, 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.[1]

The use of ERP in manufacturing companies provides several benefits: integration of centralization, data-

1. Hardin, K., Laaper, S., Parrott, A.& Gold, S. (2022). *Meeting the challenge of supply chain disruption.* Deloitte Insights.

driven decision-making, and connectivity and communication internally (all departments, locations) and externally (customers, suppliers). ERP systems are 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 ERP technology to increase visibility into the entire manufacturing process to impart resilience and potentially improve profitability on the whole.[2]

Key features of manufacturing ERP systems include:[3]

- 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:[4]

- Optimized stock levels
- Reduced carrying charges
- Reduced stock shortage or stock surplus situations
- Improved delivery times
- Reduced order errors

2. Schwarz, L. (2025, June 1). *What Is manufacturing ERP software? A complete guide.* Netsuite.

3. Schwarz, L. (2025, June 1). *What Is manufacturing ERP software? A complete guide.* Netsuite.

4. Schwarz, L. (2025, June 1). *What Is manufacturing ERP software? A complete guide.* Netsuite.

11.9: 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

- *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.
- *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.
- *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 is determined in part by the service that you provide. 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.[1] Most of us now hold jobs in the service sector, which accounts for approximately 80 percent of Canadian jobs.[2]

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.

Media Attributions

"Men Having Their Haircut" by Thgusstavo Santana, used under the Pexels license.

1. Bernard, A. (n.d.). *Trends in manufacturing employment.* Statistics Canada.

2. Statistics Canada. (2024). *Labour force survey, February 2024*.

11.10: OPERATIONS PLANNING FOR SERVICE PROVIDERS

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.

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.[1]



McDonald's customers are using the drive-thru more often

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.

1. Wright, D. (2024, November 19). *Why self-serve soda stations are disappearing from McDonald's.* GrubHub.

These changes reflect an industry-wide movement toward more streamlined operations that better serve modern consumer preferences.[2]

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 theatres. 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, and it 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.

2. Wright, D. (2024, November 19). *Why self-serve soda stations are disappearing from McDonald's.* GrubHub.

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 our 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 their 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.

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11.11: OPERATIONS CONTROL FOR SERVICE PROVIDERS

Overseeing a service organization puts special demands on managers, especially those running businesses, such as hotels, law firms, and healthcare providers, 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, being greeted by 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.[1]

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 rank consistently high in customer satisfaction in the restaurant industry.[2]

Scheduling



Managers must schedule the right number of employees for peak times.

In manufacturing, managers focus on scheduling the activities needed to transform raw materials into finished goods. Service organizations 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.

Scheduling is made easier by information provided by a point-of-sale device built into many cash registers (also known as point-of-sale or 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.

1. RBC. (n.d.). *Our company.*

2. The Keg. (n.d.). *Our story.*

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."[3] 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

3. RGIS. (n.d.). *Retail.*

understanding. Nevertheless, in this era of globalization, we expect the trend toward offshore outsourcing to continue.

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11.12: QUALITY CONTROL FOR SERVICE PROVIDERS

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-thru 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 customer service.

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-thru 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.[1]

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 their 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 (SPC)

While SPC originated in manufacturing, it is also applicable in service industries, particularly those where consistency and quality are essential, such as call centres, 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

1. Scheid, J. (n.d.). *What are some of the companies that benefit from TQM?* BrightHubPM.

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 translates to "change for the better" or "continuous improvement." The concept became widely known through its use in Japanese manufacturing, particularly at Toyota, and has since been adopted globally across industries. **Kaizen** is a continuous improvement approach focused on making small, incremental changes to processes, aiming to enhance quality, efficiency, and service delivery. In the service industry, Kaizen encourages employee involvement and ongoing efforts to improve customer satisfaction and 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** [2] is commonly used in service industries to measure quality across five dimensions: reliability, responsiveness, assurance, empathy, and tangibles. 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 behaviour. 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.[3]

2. Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). SERVQUAL: A multiple-item scale for measuring consumer perceptions of service quality. *Journal of Retailing, 64*(1), 12–40.

3. OpenAI. (2023). *ChatGPT* (Jan 21 version) [Large language model].

CAREER SPOTLIGHT

Alex Budzinski



Alex Budzinski

Alex has over twenty years of experience in utility construction, with a focus on civil foundation construction. Alex started in the industry as a Project Administrator and grew into roles in Construction and Project Management. Between 2012 and 2018, in his roles as Project Manager and Construction Manager, Alex helped lead multiple major projects for the Valard Group of Companies involving the installation of 2,400 km of a high-voltage transmission line.

In 2020, Alex helped found the Java Group and is now responsible for overseeing their North American operations, acting as CEO of Victor Energy, Rising Edge Group, Helical Pile Solutions, Professional Excavators and Megaverse Geomatics.

"As Vice President, Operations for JAVA Holdings, I am responsible for the development and oversight of our growth strategy and building the associated teams to support that growth in North America. My primary role is understanding risk, mitigating impacts, building vertical integration between the Operational Units, and ensuring compliance with our global vision for our group of companies. My passion is problem solving and tackling big projects with big risks—something that, regardless of my day-to-day duties as an executive, is still a paramount responsibility as a contractor in the utility and construction market."

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CAREER SPOTLIGHT

Donna Schwartzentruber



Donna Schwartzentruber

After a long career in Operations Management, Donna now leverages her extensive operations and supply chain expertise to assist others. Currently, she works as a consultant to the operations manager and an advisor to the owner of Classteel Inc., a steel fabricator in Ayr, Ontario. Her role as an advisor involves providing long-term strategic guidance and building relationships, while her consultant duties focus on short-term, project-based solutions to specific problems.

Her career highlights include:

• Graduating from Conestoga College with a degree in Business Administration.

• Pursuing continuing education for over 25 years at various colleges and universities, earning certifications in purchasing, management, supply chain, and leadership.

• Gaining experience in distribution, software development, and manufacturing industries.

• Serving as an operations manager and immersing herself in operations and supply chain management for 40 years, reporting directly to CEOs and owners.

"Working in operations and supply chain management has offered me substantial career growth, strong job demand, and the ability to make a real impact on businesses. By collaborating with team members, we are able to optimize our processes and systems that move goods and services from vendors to customers, focusing on efficiency, cost reduction, and customer satisfaction."

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CHAPTER REVIEW

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**) is 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 refers to the maximum number of goods that it can produce over a given time under normal working conditions. Estimating the 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. Businesses must strike 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, managers 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** (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. **Computer-Aided-Design (CAD)** refers to the use of computer software to create, modify, analyze, or optimize a design.
25. **Computer-Aided-Manufacturing (CAM)** refers to the use of computer software and hardware to control and automate manufacturing processes.
26. **Computer-Integrated-Manufacturing (CIM)** represents a comprehensive approach to manufacturing where CAD, CAM, and other business and manufacturing processes are integrated using computer systems.
27. **Enterprise Resource Planning (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 as the degree to which a product or service meets or exceeds customer expectations and adheres to established standards or specifications. It is a multifaceted concept that can be viewed through different lenses, such as product characteristics, customer satisfaction, and continuous improvement.
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 behaviour, 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 is determined in part by the service that you provide. Unlike manufactured goods, many services are bought and consumed at the same time.
32. **Managing service operations** is about more than 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 model** is commonly used in service industries to measure quality across five dimensions: reliability, responsiveness, assurance, empathy, and tangibles. This framework allows businesses to identify specific areas where they can improve to meet or exceed customer expectations.

Download the "Chapter in Review" for Chapter 11: Operations Management [PDF].

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, 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 (list the product or service features) bring the benefits you want or need (think about what's important to you), and thus, the value you appreciate (consider which benefits are valuable to you)? Discuss with your class and/or professor.
3. **Manufacturing Facility Layout.** Use the Internet to research the types of facility layouts for manufacturing: process layout, product layout, fixed-position, and cellular layout. Provide an example of when each type of layout would be the best choice. (Pick an example that's not already mentioned in the chapter.) Explain. 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 another 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 another), 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, jewellery 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? 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 Material (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 another 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 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/understandingbusiness/?p=403#h5p-25

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/understandingbusiness/?p=403#h5p-26

Additional Resources

- Association for Supply Chain Management
- The Canadian Chapter of the Society of Quality Assurance
- American Society of Quality Assurance
- International Facility Management Association—Path to the CFM Exam
- Certification in Production and Inventory Management (CPIM)
- APICS Certifications
- SAP Certifications
- International Trade Certifications
- The P. Log Designation
- Canada's Logistics Association and CCLP Designation
- What are the Best Companies for a Supply Chain Management Career?
- Mass Customization (Operations Management). YouTube Video.
- Operations Management. YouTube Video.
- Project Management in Under 5: What is a Gantt Chart? YouTube Video.
- Project Management in Under 5: What is a PERT Chart? YouTube Video.
- Harley-Davidson's Operations Management & Productivity.
- What is Just-in-Time (JIT) Inventory Management? YouTube Video.
- Circular Economy. CSA Group.
- Circular Economy, Stories. World Economic Forum.
- United Nations Sustainable Development Goals

Attributions

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CHAPTER 12: INFORMATION AND RISK MANAGEMENT

CHAPTER PREVIEW

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]

Learning Objectives

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

1. Explain how analyzing Big Data can help businesses.
2. Express some of the major threats to data security a business may experience.
3. Clarify what is meant by "information sharing" and the challenges this may present.

1. Indeed Editorial Team. (2024, August 15). *What is data in business? (Plus importance and examples).* Indeed.

2. Arora, R. (2024, August 23). *Technology in today's business world.* Momentum.

3. U-Tech Electronics. (n.d.). *The impact of technology on modern business: A comprehensive analysis.*

4. Define information mining and visualization.
5. Explore the key elements and trends in information management and their impact on business operations.
6. Discuss ways to manage common business risks within one or more sectors.
7. Distinguish between real risk and perceived risk by providing an example of each.
8. Illustrate the major factors that influence an organization's risk tolerance.
9. Show how risk impacts business and outline the five steps of risk management.
10. Demonstrate the utility of risk management across different sectors.
11. List the most common risk response strategies and provide examples for each.
12. Describe how Artificial Intelligence is being used in business to enhance information and risk management.
13. Assess the principles and guidelines of ISO 31000 and its role in standardizing risk management practices.

12.1: 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:[1]

- *Customer insights:* Retailers like Amazon use big data analytics to personalize recommendations and understand purchasing behaviour.
- *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.



A specialist at a Big Data centre with several server racks.

The financial industry puts Big Data and analytics to highly productive use, for:[2]

- *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

1. Hillier, W. (2023, September 23). *What are some real-world examples of big data?* CareerFoundry.

2. MongoDB. (n.d.). *9 big data examples & use cases.*

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.

Media Attributions

"Software Engineer Standing Beside Server Racks" by Christina Morillo, used under the Pexels license.

12.2: DATA SECURITY: PROTECTING VALUABLE ASSETS

Data security is essential 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.[1] The 2017 Equifax data breach exposed the personal data of hundreds of millions of individuals, mostly from the U.S. but also from the U.K. and Canada, due to unpatched software vulnerabilities, underscoring the importance of proactive cybersecurity measures.[2]

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.

1. MongoDB. (n.d.). *9 big data examples & use cases.* CareerFoundry.

2. Wikipedia. (n.d.). *2017 Equifax data breach*.

The Inside Story of the 2017 Equifax Data Breach

Watch the video on the 2017 Equifax data breach to understand the sequence of events that triggered the breach, its widespread impact, and the essential takeaways for individuals and organizations aiming to strengthen their cybersecurity defences.



One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=413#oembed-1

Transcript for "The Inside Story of the 2017 Equifax Data Breach" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: Cyber Flunk. (2024, October 9). *The Inside Story of the 2017 Equifax Data Breach.* [Video]. YouTube.

12.3: INFORMATION SHARING—COLLABORATION AND RISKS

In the context of business, **information sharing** refers to the process of exchanging data, knowledge or insights between teams and organizations. 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 collaboration, 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.[1]

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.

1. Hillier, W. (2023, September 23). *What are some real-world examples of big data? CareerFoundry.*

What are the Six Important Business Objectives of Information Technology?

Watch the YouTube video below, "What are the Six Important Business Objectives of Information Technology?" to learn more about how technology supports business processes.



One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=416#oembed-1

Transcript for "What are the Six Important Business Objectives of Information Technology?" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: BusinessGuide360. (2024, November 30). *What are the six important business objectives of information technology?* [Video]. YouTube.

12.4: 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 modelling to uncover actionable insights that drive decision-making and strategic initiatives. Two common examples of data mining applications are:

- *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.
- *Customer segmentation:* Marketers apply clustering algorithms to group customers based on shared characteristics and behaviours. 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 behaviour, 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.[1]

1. Hillier, W. (2023, September 23). *What are some real-world examples of big data? CareerFoundry.*

Information mining and visualization facilitate quick understanding of trends and anomalies and enhance 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.[2]

2. Hillier, W. (2023, September 23). *What are some real-world examples of big data? CareerFoundry.*

12.5: 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.[1]

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

- *Edge computing:* IoT devices like thermostats, or wearable fitness trackers collect data from the physical world, and edge computing processes that data nearby—in real time—so decisions can be made quickly without sending everything to the cloud, thus reducing latency and enhancing real-time decision-making.
- *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.
- *Advanced cybersecurity measures:* Innovations like quantum encryption are expected to redefine data security.

1. MongoDB. (n.d.). *9 big data examples & use cases.* CareerFoundry.

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.[2]

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/understandingbusiness/?p=420#h5p-27

2. MongoDB. (n.d.). *9 big data examples & use cases.* CareerFoundry.

12.6: 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.[1] 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* is risk that is related to financial operations and transactions.
- *Strategic risk* stems from business strategies and industry changes.
- *Compliance risk* is the risk that arises when legal and regulatory requirements are not met.
- *Reputational risk* impacts public perception and brand reputation.
- *Market risk* is a result of market dynamics like price and demand fluctuations.
- *Credit risk* arises due to potential default on financial obligations.
- *Technology risks* include cybersecurity threats and system failures.

1. Peterson, O. (2019, August 9). *The ultimate risk management guide: Everything you need to know.* Process.St.

12.7: REAL VERSUS PERCEIVED RISK

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 requires high risk tolerance.

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, despite the fact that air travel is statistically much safer than driving, some people have a fear of flying in an airplane based on news about airplane crashes. 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.

Media Attributions

"Man In Black Tank Top Hanging On A Rope" by Alexandre Cubateli Zanin, used under the Pexels license.

12.8: 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:

- Industry and market environment
- Financial stability
- Leadership and culture
- Strategic goals
- 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 in return for significant market rewards. For example, Tesla's early years involved large investments in electric vehicle technology without guaranteed returns.

A family-owned retail business that focuses on incremental growth and avoids aggressive expansion to preserve stability is an example of low risk tolerance. A good example is a local grocery store that chooses to maintain a 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.

12.9: 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.[1]

The five primary steps in risk management are as follows:[2]

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.

1. Peterson, O. (2019, August 9). *The ultimate risk management guide: Everything you need to know.* Process.St.

2. IMD. (2024, November). *Risk management: Understanding the basics and importance.*

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: [3]



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

3. Businessnes. (2024, October 2). *20 examples of risk management & guide*.

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.

Media Attributions

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12.10: RISK MANAGEMENT ACROSS DIFFERENT SECTORS

Risk management helps organizations anticipate and address potential threats and uncertainties in many areas.

Project Management

Risk management is 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 all business activities can be classified as business projects. For example, developing a new product, implementing a new process, upgrading to a new computer system can all be considered 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 a risk management software used by many project managers to track and analyze 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.[1]

To continuously manage information risk, a business should do the following:[2]

- *Monitor security performance.* 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

1. Holmes, R. (2024, June 4). *What is information risk management?* Bitsight.

2. Holmes, R. (2024, June 4). *What is information risk management?* Bitsight.

operations, but they also introduce significant risks. Mitigate supply chain risk by measuring, verifying, and continuously monitoring vendors' security measures — 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 impose 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.[3]

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 the 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 uses advanced data analytics and stress-testing models to manage its credit and market risk exposures. It also employs a robust cybersecurity framework to protect against data breaches, integrating these efforts into its broader enterprise risk management strategy.[4]

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.

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3. Daddey, F., & Newton, R. (2022). *Fundamentals of business.* Douglas College.

4. JPMorgan Chase & Co. (2024). *2024 annual Dodd-Frank Act stress test results disclosure.*

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 is essential in the healthcare industry.

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. In April 2024, a violent earthquake in Taiwan severely impacted semiconductor production, triggering widespread disruptions across global supply chains—particularly in the automotive and electronics industries—due to Taiwan's key role in chip manufacturing.
- *Global pandemics:* 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:* Cybersecurity breaches can disrupt the supply chain by paralyzing critical systems, halting production and logistics, and preventing the flow of goods and services across interconnected networks. The June 2025 cyberattack on United Natural Foods Inc. (UNFI), the primary distributor for Whole Foods Market forced UNFI to shut down its systems, halting deliveries to over 30,000 grocery stores across North America. This led to empty shelves, frozen supply chains, and manual workarounds, highlighting how a single cyberattack can paralyze a critical segment of the food supply chain.[5]

Technological tools in supply chain relationship management help monitor and reduce risks. Some of these tools include:

- 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 technology used by companies like IBM and Maersk 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.

Media Attributions

"Operation, Operating room, Surgery image" by sasint, used under the Pixabay license.

5. Sayegh, E. (2025, June 19). Cyberattack on Whole Foods supplier disrupts supply chain again. *Forbes*.

12.11: 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: [1]

- *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.

Risk Response Strategies

Risk response strategies include:[2]

Risk Avoidance

- *Definition:* Eliminating the risk entirely by choosing not to engage in the activity or decision that creates the risk.
- *Example:* A company decides not to launch a product in a highly unstable market to avoid financial losses.
- *When to use:* For high-probability, high-impact risks that cannot be mitigated to acceptable levels.

Risk Mitigation (Reduction)

- *Definition:* Reducing the likelihood or impact of a risk to acceptable levels through preventive measures.

1. FasterCapital. (2025, April 6). *Business risk response: How to plan and execute risk management actions.*

2. AlertMedia. (2024, December 18). *Emergency management: 7 business risk response strategies [+Mitigation plan].*

- *Example:* Implementing stronger cybersecurity protocols to reduce the likelihood of data breaches.
- *When to use:* For risks that are manageable with controls and investments.

Risk Transfer (Sharing)

- *Definition:* Shifting the risk to a third party, such as through insurance, outsourcing, or contracts.
- *Example:* Purchasing insurance for liability protection or hiring a third-party logistics provider to manage shipping risks.
- *When to use:* For risks that are costly to manage internally or are outside the organization's expertise.

Risk 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 the cost of mitigation exceeds the potential loss.

Risk Exploitation (for Opportunities)

- *Definition:* Taking actions to ensure a positive risk (opportunity) is fully realized.
- *Example:* Expanding into a new market based on favourable conditions or trends.
- *When to use:* For risks that present clear potential benefits if managed correctly.

Risk 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.

Cellular Central — Managing Theft Risk

Cellular Central, a popular cell phone 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 behaviour, 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:** Cellular Central 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.

Which risk response strategy would you recommend to the owner of Cellular Central? What things did you consider before making this recommendation?

12.12: 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 behaviours 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 labour, 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 overstated. The ever-evolving global environment brings forth new challenges and opportunities that demand a proactive and adaptive approach to risk.[1]

Here are six of the key risk management trends shaping the corporate landscape (in 2024):

- **Digital transformation and cybersecurity**. Developing a 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.
- **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.
- **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.
- **Data privacy and compliance.** Investing in robust data governance frameworks ensures that they not only comply with regulations but also uphold customer trust. Innovations in data anonymization and encryption technologies are gaining prominence in navigating the complex landscape of data privacy risks.
- **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.
- **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.

1. Aragon Research. (2024, January 5). *6 emerging risk management trends in 2024.*

Media Attributions

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12.13: 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.[1]

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 identify, assess, and manage risk with the intention of improving decision-making, governance, and performance.[2]

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.[3]

Some of the more popular risk management frameworks 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 their Cybersecurity Framework (CSF).
- COSO Enterprise Risk Management (ERM): The Committee of Sponsoring Organizations' enterprise

1. Peterson, O. (2019, August 9). *The ultimate risk management guide: Everything you need to know.* Process.St.

2. ISO. (2018). *ISO 31000:2018 – Risk management — Guidelines, Edition 2.*

3. Villanueva, E. (2023, August 16). *Risk management 1010: Process, examples, strategies.* AuditBoard.

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.
- The 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.

CAREER SPOTLIGHT

Katarina Borg



Katarina Borg

Katarina is a Senior Financial Lines Underwriter with extensive experience in underwriting directors' and officers' liability, employment practices liability, fiduciary liability, and crime insurance.

Katarina's job requires proficiency in analyzing financial statements to assess company stability and evaluate risk profiles, ensuring that underwriting decisions align with guidelines and standards. She manages a diverse portfolio of businesses, leveraging strong relationship management skills to build trust, negotiate effectively, and secure commitments with high-profile clients. She collaborates closely with the claims team to assess coverage, address claims, and navigate resolution processes. She often provides guidance to other underwriters, assisting with complex cases and ensuring that underwriting decisions align with best practices. She strives for excellence in risk assessment, client relationships, and underwriting strategy in the evolving financial lines insurance landscape.

"Effective risk management isn't about avoiding risk; it's about understanding, anticipating, and strategically navigating it to create challenges into opportunities."

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CHAPTER REVIEW

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. The defining characteristics of big data 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 modelling 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. There are a number of risk management standards designed to consolidate best practice principles and 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 many different standards, **ISO 31000** also refers to a singular standard, specifically known as ISO 31000:2018.
9. **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.

10. **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.
11. **Real risks** are backed by data, evidence, or historical trends. They are measurable and often require proactive mitigation.
12. **Perceived risks** are based on feelings, fears, or assumptions and may lack concrete evidence. They often result from misinformation, cognitive biases, or heightened awareness.
13. **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.
14. **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.
15. 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.
16. 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.
17. **Project risk management** involves dealing with uncertainties and potential risks that 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.
18. **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.
19. **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.
20. **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.

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.

Download the "Chapter in Review" for Chapter 12: Information and Risk Management [PDF].

End-of-Chapter Exercises

1. **Big Data in Google Trends.** Visit the Google Trends website and explore what Canada is searching for right now. Assume you are a business that sells a product, such as Harley-Davidson motorbikes, M&M's Candy, or Nike shoes. Use Google Trends to learn about the brand'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 the 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 a company that uses 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. Rutgers 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? 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 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/understandingbusiness/?p=443#h5p-28

Additional Resources

- What are the 4 Concepts of Business Intelligence? YouTube Video.
- The Intersection of Business and Technology: An Interview with Mike Jackowski, CEO, Duck Creek. YouTube Video.
- Report a Privacy Breach at Your Organization.
- Get Started with Google Analytics. YouTube Video.
- Risk Management, Judgment, and Decision-Making for Outdoor Leaders. OER
- Risk Management, Supply Chain and Operations Perspective. OER
- What is Information Risk Management?
- The 7 Best Free and Open Risk Management Software
- Innovation QuickWin: Innovation Metrics. YouTube Video.
- Google Data Analytics Professional Certificate
- Google Foundations: Data, Data, Everywhere. Course.

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CHAPTER 13: MANAGING PERSONAL FINANCES

CHAPTER PREVIEW

Managing your money well is important for a secure future. This chapter will help you understand how to plan your finances, handle debt, budget your income, invest wisely, use banking services, and build a good credit score.

Learning Objectives

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

1. Define financial planning with reference to the financial planning life cycle.
2. Describe strategies to manage and minimize personal debt.
3. Explain how to manage monthly income and expenses.
4. Clarify the concepts of compound interest and the time value of money and their impact on long-term financial planning.
5. Differentiate between major banks and credit unions in terms of structure, services, and profitability.
6. Explore how you can build a credit history that will give you a high credit score.

13.1: FINANCIAL PLANNING

Before we go any further, you need to understand a couple of key concepts. First, 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 13.1 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, and retiring).

At each stage, there are recommended changes in the focus of the individual's financial planning:

- Stage 1 focuses on building wealth.
- Stage 2 shifts the focus to the process of preserving and increasing wealth that one has accumulated and continues to accumulate.
- Stage 3 turns the focus to the process of living on (and, if possible, continuing to grow) one's saved wealth after retirement.

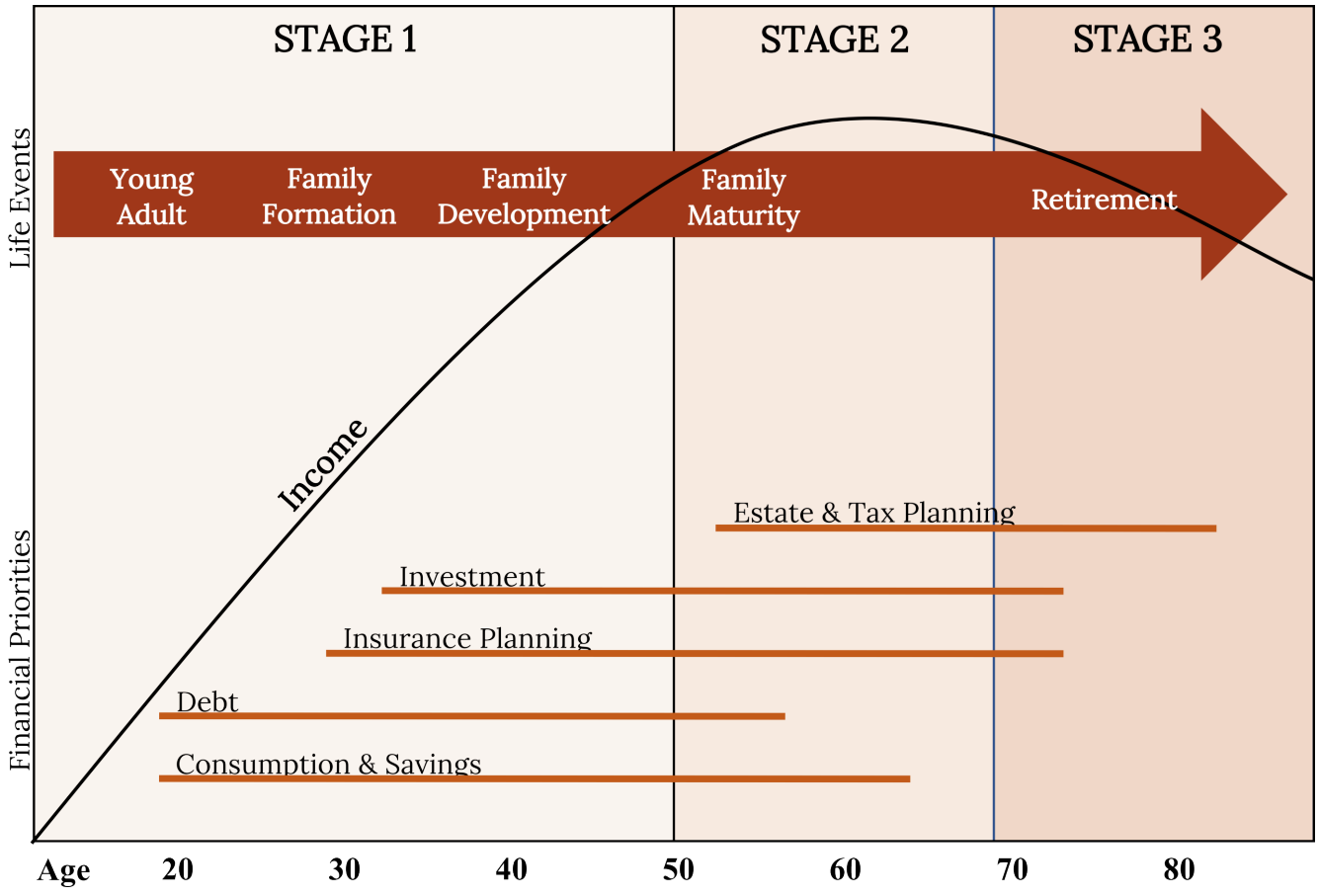


Figure 13.1: The financial life cycle. [See image description.]

At each stage, of course, complications can set in—changes in such conditions as marital or employment status

1. Gallager, T. J., & Andrews, J. D. Jr., (2003). *Financial management: Principles and practice*, 3rd ed. Prentice Hall. pp. 34, 196.

or in the overall economic outlook, for example. Finally, as you can also see, your financial needs will probably peak somewhere in stage 2, at approximately age 55, or 10 years before the typical retirement age.

Until you're on your own and working, you're probably living on your parents' wealth right now. In our hypothetical life cycle, financial planning begins in the individual's early twenties. If that seems like rushing things, consider a basic fact of life: this is the age at which you'll be choosing your career, not only the sort of work you want to do during your prime income-generating years, but also the kind of lifestyle you want to live.

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Image descriptions

Figure 13.1

A graphical representation of the financial life cycle. The x-axis shows age from 20 to 80 in ten-year increments. The graph is split into three stages. Stage 1 extends from 20 to 50. Stage 2 extends from 50 to 70. Stage 3 extends from 70 to 80. A large right-sided arrow lies at the top of the graph, labelled "Life Events." Five events lie on the life events arrow, representing events at different ages. Age and events from left to right: Age 20, Young Adult; Age 25, Family Formation; Age 35, Family Development; Age 50, Family Maturity; Age 75, Retirement. A curved line representing income begins at the origin of the graph, steadily increases and peaks around 60 years old, then steadily decreases at the same rate. Five straight orange lines representing "Financial Priorities" lie under the income line vertically, beginning and ending at different ages. Age ranges and priorities listed from bottom to top are: Age 20 to 70, Consumption and savings; Age 20 to 60, Debt; Age 30 to 75, Insurance planning; Age 35 to 75, Investment; Age 50 to 80, Estate and tax planning.

[back to figure]

13.2: 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 making an annual salary of $60,000 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.[1]

Student Loans for College and University Studies

With increased demand for college education, students are willing to take on debt for potential benefits, such as better earning potential and more job opportunities.

Here are a few statistics (2022–2023) about Canadian student loans:[2]

- 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.

1. Gerson, E. & Simon, J. (2016). *10 ways students can build good credit.* CreditCards.com. Retrieved from http://www.creditcards.com/credit-card-news/help/10-ways-students-get-good-credit-6000.php

2. Lau, M. (2024, February 5). *What's the average student loan debt in Canada? 19 staggering statistics.* Robertson College.

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:[3]

- 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?

A few ways to get out of personal debt include consolidating debt, increasing your income, creating a budget, reducing monthly bills, curbing impulse spending, using a debt repayment strategy, considering credit counselling, using cashback rewards, scaling back on savings temporarily, and creating an emergency fund. Bankruptcy is a final option, but not the best one, as it negatively affects your future credit rating.

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.

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3. OCUFA. (2024, September 7). *CBC asks: Is university still worth it? We answered.*

- 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 counselling: A nonprofit credit counsellor 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 in the future.

13.3: MANAGING YOUR INCOME AND EXPENSES

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. 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 PocketGuard, Monarch, 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 your spending 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.[1] 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.[2]

Build 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.

1. Ganti, A. (2024, October 17). *What is a budget? Plus 11 budgeting myths holding you back*. Investopedia.

2. Sharkey, S. (2024, September 27). *How do you create a college student budget you'll actually use?* CleverGirlFinance.

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 plan.
- 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.[3]

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.[4][5] You may or may not be one of the 40% percent of Canadian consumers who regret holiday-spending bills.[6] 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/understandingbusiness/?p=455#h5p-29

3. Wood, C. (2024, November 1). *Canadian bank fees: The good, the bad and the ugly*. Loans Canada.

4. Statistics Canada. (2023, July 4). *Hot summer day...cold beer or cooler.*

5. Tim Hortons. (n.d.). *Fresh facts*. Retrieved from https://company.timhortons.com/us/en/corporate/fresh-facts

6. Bazian, G. (2018, December 21). *Over 40 percent of Canadians anticipate feelings of anxiety and regret over holiday spending bills.* MNP.

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13.4: 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 private 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:[1]

- Guaranteed investment certificates (GICs)

1. Scotiabank. (n.d.). *Student banking 101: What you need to know about investing as a student.*

- 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.

Compound Interest Introduction

Watch Khan Academy's video "Compound Interest Introduction" to help you decipher and understand compound interest.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/understandingbusiness/?p=460#oembed-1

Transcript for "Compound Interest Introduction" video [PDF–New Tab]. Closed captioning is available on YouTube.

Source: Khan Academy. (2019, September 23). *Compound Interest Introduction* [Video]. YouTube.

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 13.2 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 brown 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 years.

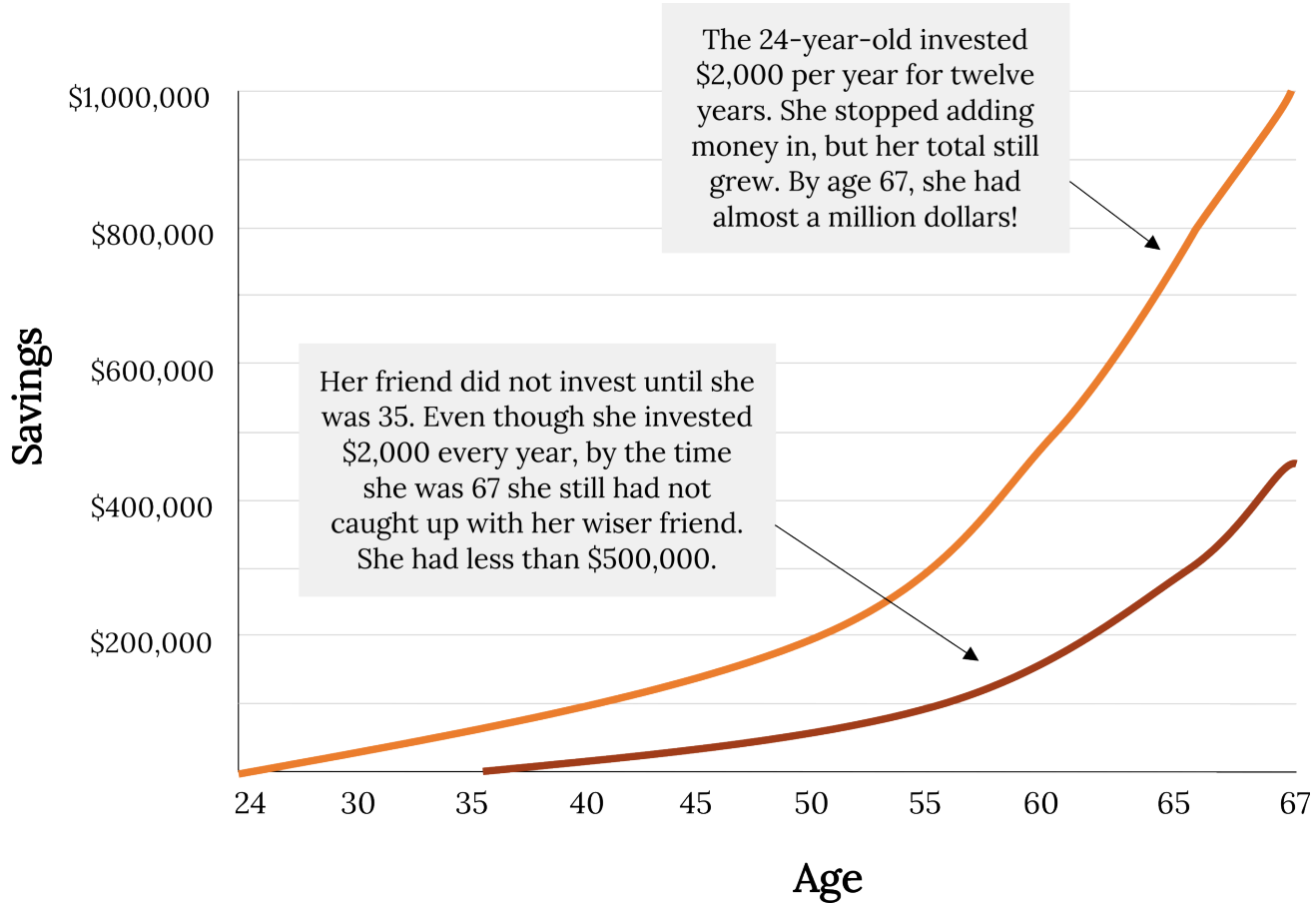


Figure 13.2: The power of compound interest. [See image description.]

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."[2]

2. All Financial Matters. (2006, February 10). *An interview with Jonathan Clements – Part 2.* Retrieved from http://allfinancialmatters.com/2006/02/10/an-interview-with-jonathan-clements-part-2/.

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"Figure 13.2: The Power of Compound Interest" is reused from The Financial Life Cycle, © 2022 by Kindred Grey, licensed CC BY 4.0.

Image descriptions

Figure 13.2

The x-axis shows age from 24 to 67, with labels in 5-year increments starting with 30 up to 65. The y-axis shows savings from 0 to $1,000,000 in increments of $200,000. Two curved lines slope up, with one line beginning with savings at 24 years sloping up to $1 million at 67 and the second line beginning at 35 and sloping up to around $500,000 at age 67. Boxes of text point to each line.

The first line reads "The 24-year-old invested $2,000 per year for twelve years. She stopped adding money in, but her total still grew. By age 67, she had almost a million dollars!"

The second line reads "Her friend did not invest until she was 35. Even though she invested $2,000 every year, by the time she was 67 she had not caught up with her wiser friend. She had less than $500,000."

[back to figure]

13.5: BANKING

Suppose you want to save or invest — do you know how or where to do so? You probably know that your bank branch 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 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 Five 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. Table 13.1 highlight the key similarities and differences between the two.

Table 13.1: Similarities and differences between banks and credit unions

Banks	Credit Unions
Usually banks are owned by shareholders.	Customers are "members"; deposits are called "shares."
Banks are for-profit organizations and shareholders expect to receive a profit.	Credit Unions are non-profit organizations that strive for service over profitability.
Banks offer a wide range of competitive and advanced banking products.	Credit Unions may not have all the banking products as major banks
Inter-branch banking makes banking convenient.	Inter-branch banking is limited.
Banks must make sound financial decisions, collect revenue, pay salaries, and compete with other institutions.	Credit unions must make sound financial decisions, collect revenue, pay salaries, and compete with other institutions.
Funds are secure.	Funds are 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.

Identify

You may want to read How to Choose A Bank that's Right for You.

When choosing a financial institution, consider the geographical location, banking hours, and ATM availability.

How many transactions do you make in a typical month? This can help you determine how many monthly transactions you need to have included with your banking package.

Shop Around

Once you've identified the services you need, find out how much it will cost to get those services. Start by looking at no-fee accounts to see if they meet your needs.

Compare whether it would be less expensive for you to get an account package for a fixed fee that includes an unlimited or specific number of transactions each month, or to pay for each individual transaction.

Paying extra fees for services you use regularly can be expensive. If there are certain products or services that you use often, such as e-transfers, look for a chequing account that includes those products or services as part of the monthly fee.

Use the Financial Consumer Agency of Canada's (FCAC's) interactive account comparison tool to compare the chequing accounts that are available to suit the banking habits and needs you have identified.

If you are a student, youth, senior or newcomer to Canada, you may be able to choose from banking packages especially designed for you. These packages usually cost less, offer added benefits or may have no monthly fees for a limited time.

Choose

After gathering all of this important information, it's time to make your final selection. If you are still uncertain, make an appointment with a banking specialist to have any additional questions answered.

Be comfortable and confident with your choice of bank and account!

Avoid the Predators

Payday loans are offered by private lenders and cheque cashing outlets. People use them to cash cheques or borrow money in advance of their paychecks.

But payday loans are very expensive ways to borrow money. Even though such money lending companies have been recently regulated by the government, there are many high service fees and interest charges. For instance:

- NSF fees are as high as $60 for each missed payment
- The average fee for a two-week $300 loan is over $60. If you work that out to a yearly interest rate that is 520%!

Now you are ready to start planning for your financial future.

13.6: 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.[1]

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 behaviour 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 exactly the same. Credit bureaus in Canada, like Equifax and TransUnion, use their own 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

1. Horton, C. (2023, July 19). Emergency fund calculator. *Forbes.*

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.[2]

So, what does this mean for you? It depends on your credit behaviour. 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 favourable terms.

2. Government of Canada. (n.d.). *Credit report and score basics.*

- *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 favourable 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



Making a 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 favourable 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 favourable loan terms.

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CHAPTER REVIEW

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. 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, scaling back on savings temporarily, 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. A personal or household helps you track your income and spending so that you can manage money, avoid debt, and save for goals.
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 behaviour 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.

Download the "Chapter in Review" for Chapter 13: Managing Personal Finances [PDF].

End-of-Chapter Exercises

1. **OECD Financial Literacy.** The Organization for Economic Cooperation and Development began measuring the financial literacy of the countries within the OECD using simple scenario-based questions to test basic financial literacy knowledge. You can take the assessment 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.** 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 Financial Literacy Quiz built by the Government of Singapore. 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 budgeting challenges similar to yours.
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 credit 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 findings 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's time. How

much would you need to deposit monthly in a savings account paying 1% interest in order 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 of renting a two-bedroom apartment or buying 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/understandingbusiness/?p=467#h5p-30

Additional Resources

- TD Bank Budgeting Advice for Students
- Khan Academy's Seven Minute Explanation of Compound Interest
- 7 Effective Tips for Reducing Your Expenses

- 30-Day No Spend Challenge
- How to Save Money on Household Bills
- How I Saved $10,000 in Six Months
- A Third of Canadians Say They're "House Poor", and a Fifth Regret Their Purchase
- Government of Canada, Credit Report and Score Basics
- How to Pay Off $50,000 of Debt in One Year
- What College Students Need to Know About Money. YouTube Video.
- Compound Interest. YouTube Video.
- Financial Empowerment: Personal Finance for Indigenous and Non-Indigenous People
- Student Banking 101: What You Need to Know About Investing as a Student
- Financial Literacy Programs, Government of Canada
- One Page Financial Plan. YouTube Video
- Making a Budget. Government of Canada
- Financial Consumer Agency of Canada

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APPENDIX: CASE STUDIES

- Case Study 1: Rooted Grounds Café (Chapter 2)
- Case Study 2: Navigating Uncertainty at Northern Bean Roasters (Chapter 3)
- Case Study 3: Navigating Cultural Expectations at NovaTech (Chapter 4)
- Case Study 4: Going Global at ClearView Instruments (Chapter 4)
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- Case Study 6: Fork & Field Fresh Market (Chapter 6)
- Case Study 7: Organizing for Growth at Riverstone Outdoor Gear (Chapter 7)
- Case Study 8: Motivating the Team at NovaCare Wellness (Chapter 7)
- Case Study 9: BrewNook Specialty Teas (Chapter 8)
- Case Study 10: Managing Risk at PrairieTech Solutions (Chapter 12)

Case Study 1: Rooted Grounds Café

This case study is associated with Chapter 2: Business Concepts.

As the founder and general manager of Rooted Grounds Café, Kiran Mehta built their coffee shop from the ground up after graduating from business school. Five years in, the business has grown steadily, but a recent drop in customer visits and a rise in supplier costs are putting pressure on revenue. Kiran is concerned about maintaining profitability without sacrificing the café's commitments to local sourcing and inclusive hiring. They need to make a decision that aligns with their values while balancing the interests of different stakeholders. This dilemma is central to Kiran's role not only as an entrepreneur but as a decision-maker accountable to a wider web of individuals and groups.

Rooted Grounds Café is in a busy neighbourhood in Hamilton, Ontario. Kiran employs 12 people, many of whom they hired through a local employment program supporting newcomers to Canada. The café's menu features organic coffee, teas, and baked goods sourced from regional farms and cooperatives. The business primarily serves young professionals, university and college students, and families in the local area. Rooted Grounds earns revenue through in-store sales and a small but growing mobile coffee cart service at local events. While sales have increased annually until recently, rising input costs and changing consumer habits have begun to affect Kiran's bottom line. The café has earned a reputation for ethical sourcing and community engagement, but Kiran is unsure of how much customers will value those efforts when prices start to rise.

Kiran sees three potential courses of action. The first option is to raise prices across the board. This option

could offset increased costs and preserve the café's revenue stream. However, they worry this might alienate budget-conscious customers and reduce foot traffic further. Kiran would need to consider the potential reaction of their customer base, a key stakeholder group in the business.

A second option is to negotiate lower prices with suppliers, some of whom are smaller producers that depend on businesses like Rooted Grounds. While this strategy could help maintain affordability for customers, it would strain relationships with farmers and vendors, who are also critical stakeholders. Kiran is worried that compromising on their values might damage the brand's identity and long-term trust in the community.

The third option is to expand the café's catering and coffee cart services. These segments have shown promise and involve lower overhead costs compared to daily operations at the café. Scaling them could increase overall revenue while reducing dependency on in-store traffic. However, this would require reassigning staff and possibly hiring event-focused workers, creating operational complexity and requiring input from employees, another key group of stakeholders.

With bills mounting and employee concerns growing, Kiran needs to make a timely and informed decision. Ignoring the needs of any one group could have long-term consequences. Understanding the web of stakeholders—customers, employees, suppliers, and the broader community—is essential to navigating the café's future without compromising its purpose or profitability.

Discussion Questions

1. Identify at least four stakeholder groups relevant to Rooted Grounds Café. How might each group be impacted by the decisions Kiran is considering?
2. Using this case, explain the concepts of entrepreneurship, profit, and revenue. How do these terms apply to Kiran's role and decision-making?
3. Describe two dimensions of today's business environment visible in this case and explain how they influence the decisions Kiran must make.

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Case Study 2: Navigating Uncertainty at Northern Bean Roasters

This case study is associated with Chapter 3: Economics and Banking.

Mika Schmidt, the co-owner of Northern Bean Roasters, is reviewing the company's financials with concern. Sales have slowed over the past six months, and costs are rising. Customers are spending less, and

suppliers are warning of upcoming price increases. Mika and his business partner, Mattis Tremblay, started the specialty coffee roasting company five years ago in Sudbury, Ontario. They've built a loyal customer base through local cafés, online sales, and a small retail shop. But now, they're unsure how to plan for the year ahead.

Northern Bean Roasters employs 18 people and sources its beans from fair-trade cooperatives in Central and South America. The company's revenue depends on both wholesale and direct-to-consumer sales. While the business has grown steadily, Mika notices that consumer demand is softening. They suspect that broader economic conditions are playing a role, but they aren't sure how to interpret the signals or what actions to take.

Mika starts researching the basics of economics to better understand what's happening. They learn that economics is the study of how individuals, businesses, and governments make choices about allocating limited resources. They also begin tracking key indicators like GDP growth, unemployment rates, and inflation. Mika sees that Canada's GDP growth has slowed, unemployment is rising slightly, and inflation remains above the Bank of Canada's target. These trends suggest that the economy may be entering a slowdown.

Mika also looks into fiscal and monetary policy. They read that the federal government has recently introduced new spending programs to support small businesses and stimulate demand—an example of expansionary fiscal policy. At the same time, the Bank of Canada has raised interest rates to combat inflation, a form of contractionary monetary policy. Mika is confused. One policy is trying to boost the economy, while the other is trying to cool it down. They wonder how these mixed signals will affect their business.

Mattis suggests they consider delaying a planned equipment upgrade and focus on preserving cash. Mika agrees but also wants to explore whether they can benefit from any government support programs. They also consider adjusting pricing or offering promotions to maintain customer loyalty during uncertain times. Before making any decisions, Mika wants to better understand how economic performance is measured and how policy decisions might affect consumer behaviour, borrowing costs, and business investment.

Discussion Questions

1. How does the definition of economics help explain the challenges Mika and Mattis are facing at Northern Bean Roasters?
2. What are the key tools and indicators Mika is using to evaluate economic performance, and what do they suggest about the current state of the economy?
3. How might fiscal and monetary policy affect Northern Bean Roasters' short-term decisions and long-term planning?

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Case Study 3: Navigating Cultural Expectations at

NovaTech

This case study is associated with Chapter 4: Global Business.

Remi Roy is the Director of International Partnerships at NovaTech Solutions. They are currently leading the company's efforts to establish a joint venture with a mid-sized technology firm in South Korea. As the primary liaison between the two organizations, Remi notices growing tension during virtual meetings. Communication feels strained, deadlines are interpreted differently, and decision-making processes do not align. These issues concern them because the success of the joint venture depends on effective collaboration. Remi needs to understand what is causing the disconnect and how to address it before the partnership deteriorates.

NovaTech Solutions is a Canadian software company based in Kitchener, Ontario. It develops enterprise software for mid-sized businesses, focusing on workflow automation, data analytics, and customer relationship management. The company employs around 300 people, most of whom work at the headquarters. NovaTech's clients include logistics firms, healthcare providers, and educational institutions, primarily located in North America and Western Europe. The company earns revenue through software licensing, subscription services, and consulting. With a strong domestic presence, NovaTech is now expanding into Asia to diversify its customer base. The joint venture in South Korea represents its first major step into this market.

Remi considers several options to address the cultural misalignment. One option is to implement a cross-cultural training program for both the Canadian and Korean teams. This program introduces Hofstede's cultural dimensions, such as power distance, individualism versus collectivism, and uncertainty avoidance. The goal is to build mutual understanding and provide both teams with tools to navigate cultural differences. Remi believes this could improve communication and collaboration, but it requires time and resources to develop and deliver.

Another option is to restructure the leadership model of the joint venture to include co-leads from both countries. This approach ensures that both cultural perspectives are represented in decision-making. Remi thinks this could help balance expectations and reduce misunderstandings. However, they also recognize that it might slow down decision-making and create ambiguity if leadership roles are not clearly defined.

A third option is to adopt a more adaptive project management framework. This would involve customizing workflows to accommodate cultural preferences, such as hierarchical communication in the Korean context and consensus-driven approaches in the Canadian context. Remi sees potential in this approach to improve operational harmony, but they are also aware that it could complicate standardization and increase administrative overhead.

Remi must decide how to proceed. The cultural tensions between the teams threaten the success of the joint venture. If Remi does not act quickly, NovaTech risks damaging its reputation and losing a valuable opportunity in the Asian market. A timely and thoughtful solution is essential to ensure the partnership's long-term success.

Discussion Questions

1. Using Hofstede's cultural dimensions, identify and explain the key cultural differences that may be contributing to the challenges between the Canadian and Korean teams.
2. Evaluate the three options Remi is considering. Which option do you think best addresses the cultural challenges, and why?
3. Propose an additional strategy that Remi could use to manage cultural differences in international partnerships. How does your strategy align with Hofstede's framework?

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Case Study 4: Going Global at ClearView Instruments

This case study is associated with Chapter 4: Global Business.

Jordan Thompson, the Business Development Manager at ClearView Instruments, is reviewing the company's latest sales report. Domestic sales have remained flat for the past three quarters, and the leadership team is pressuring them to find new growth opportunities. Jordan believes that expanding into international markets could help the company grow, but they need to evaluate whether the potential benefits outweigh the risks. The decision matters not only for the company's future but also for Jordan's role in shaping its strategic direction.

ClearView Instruments is a Canadian company based in Waterloo, Ontario. It designs and manufactures precision lab equipment used in research labs, hospitals, and universities. The company employs about 200 people and earns revenue by selling high-quality instruments and offering service contracts. Most of its customers are located in Canada, and the company is known for its reliability and strong customer support. However, competition is increasing as international firms enter the Canadian market, and ClearView's leadership is concerned about losing market share if they don't expand.

Jordan identifies three possible strategies for international growth. The first option is to partner with a U.S.-based distributor. This would allow ClearView to enter the American market quickly by using the distributor's existing sales network. It would reduce the company's upfront costs and risks, but it would also mean giving up some control over pricing and customer relationships.

The second option is to begin exporting directly to fast-growing markets like India or Brazil. These countries are investing heavily in research and healthcare, and demand for lab equipment is rising. This approach could offer higher profits and more control, but it also comes with challenges. Jordan is concerned about tariffs, customs procedures, and currency fluctuations that could affect pricing and delivery.

The third option is to invest in a small office and warehouse in Germany, giving ClearView a base in the

European Union. This would be a more expensive and long-term strategy, but it could provide access to a large, stable market with fewer trade barriers due to the EU's free trade policies. Jordan notes that the EU's harmonized regulations might also make it easier to meet product standards across multiple countries.

Jordan knows they need to present a clear recommendation to the executive team soon. The company can't afford to delay, but each option involves trade-offs. Choosing the right path could help ClearView grow internationally and stay competitive, or lead to costly mistakes in unfamiliar markets.

Discussion Questions

1. Why should ClearView Instruments consider international trade, and how do the reasons relate to the company's current situation?
2. What tools for measuring international trade should Jordan use to compare the three options, and what factors should they consider?
3. What barriers to international trade might ClearView face under each option, and how could free trade agreements influence the company's decision?

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Case Study 5: CrossWave Technologies and the Ethics of Expansion

This case study is associated with Chapter 5: Ethics and Social Responsibility.

As Chief Operating Officer at CrossWave Technologies, a mid-sized software development firm based in Mississauga, Ontario, Robin Lin is responsible for overseeing operational strategy during a critical phase of expansion. The company secured a contract with a major telecom provider to develop a new platform for customer data integration, and with that came increased pressure to hit tight deadlines and boost revenue. In the midst of the project, Robin discovered that one of the senior developers on the team obtained confidential specifications about a competing bid through a personal contact at the telecom provider. Although using this information could give CrossWave a significant advantage in finalizing its solution, Robin is deeply concerned about the ethical and legal implications. Robin faces a dilemma between advancing the firm's competitive position and maintaining its commitment to ethical conduct.

CrossWave Technologies specializes in cloud-based software solutions for medium to large enterprises. It employs 85 staff, most of whom are software engineers, designers, and project managers. The firm generates revenue through service contracts with telecom, financial services, and logistics companies. Its value proposition is built around secure, customizable tools and long-term client support. The organization prides

itself on being ethical and community-focused, regularly donating software licenses to local nonprofits and offering internship programs for students from underrepresented groups. The company's revenue has grown steadily over the past three years, and its owners are preparing for a potential acquisition that could increase its market exposure.

Robin considers three primary options. One is to inform senior leadership of the situation and recommend reporting the incident to the client, which could protect the firm's long-term credibility and align with its stated values. This option, however, carries risks: the company might lose the contract, and stakeholders such as employees and owners could face negative financial consequences.

A second option is to quietly discard the confidential information and continue working with no mention of the breach. Robin reasons that the firm did not solicit the data and wouldn't act on it. This option avoids immediate conflict, but it fails to address the ethical lapse, particularly if the developer involved remains on the team without consequence.

The third option involves using the information to refine CrossWave's bid while rationalizing that competitors would likely do the same in a high-stakes environment. The developer argues that this is common in the industry and that failing to use the advantage would hurt the team's performance metrics. Robin knows this rationale—"everyone else does it"—is a familiar justification for unethical behaviour, but they cannot ignore the short-term gains that may follow.

In addition to the immediate ethical issue, Robin recognizes broader concerns about how ethical behaviour is fostered and monitored within the organization. While the company has a formal code of conduct, there has never been an internal review or corporate social responsibility audit to evaluate whether policies are implemented consistently. Employees have not received recent ethics training, and decisions tend to be guided by the pace of business rather than explicit ethical frameworks. Robin sees this situation not only as a singular dilemma but also as a reflection of the company's larger responsibility to act ethically toward its stakeholders—owners, employees, customers, and the community.

Robin needs to decide how to proceed before the next project milestone in two weeks. Their response will shape both the outcome of the current project and the organization's long-term approach to ethics and social responsibility. A timely resolution is necessary to preserve the integrity of the decision-making process and to ensure that the company remains accountable to its stated values.

Discussion Questions

1. What ethical issue is Robin facing, and what rationalizations for unethical behaviour are present in the case? How does this relate to the definition of business ethics?
2. Who are CrossWave's key stakeholders, and how might each group be affected by the choices Robin is considering? In your response, explain the concept of corporate social responsibility and identify how each of the four types of CSR applies to this case.
3. What steps could CrossWave take to become a more ethically conscious organization? Based on the case,

how could the company perform a CSR audit?

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Case Study 6: Fork & Field Fresh Market

This case study is associated with Chapter 6: Entrepreneurship and Business Structure.

Roozbeh Nuri, owner and manager of Fork & Field Fresh Market, a small grocery store in Halifax, has operated the business as a sole proprietorship since opening it three years ago. After gaining traction in the local community, Roozbeh is considering expanding into a second location. However, they are unsure whether to continue as a sole proprietor, take on a business partner, or incorporate. Roozbeh's concerns center on accessing capital, managing liability, and structuring the business in a way that supports growth. Roozbeh knows that the decision will impact not only their financial future but also the store's sustainability in an increasingly competitive market.

Fork & Field Fresh Market offers locally sourced produce, baked goods, and prepared meals, catering to environmentally conscious shoppers and families seeking alternative grocery options. The business has six employees, including part-time staff and one assistant manager. Roozbeh handles procurement, marketing, and most financial tasks. Revenues come from in-store sales and a new subscription delivery service that has grown steadily during the past year. The store has built customer loyalty through farm partnerships and community events. With the prospect of increasing rent in her current space and rising competition from chain retailers introducing "local sections," Roozbeh sees both opportunities for expansion and threats to long-term viability.

One option is to maintain their current sole proprietorship and seek a small business loan to open a second location. This structure would allow Roozbeh to retain complete control over business decisions and keep the company's profits. However, they would remain personally liable for all debts, a risk they found unsettling with expansion on the horizon. If the new location struggled financially, their personal assets could be at stake.

A second option is to form a partnership with a former colleague who has experience in supply chain logistics and is interested in investing. This would bring complementary skills and financial backing, and lessen Roozbeh 's day-to-day responsibilities. Yet it would also require shared decision-making, profit-sharing, and clear agreements around dispute resolution. Roozbeh values their independence and is worried about potential conflicts or the risk of misaligned visions for the business.

The third option is to incorporate the business, thereby protecting Roozbeh 's personal assets and opening new possibilities for attracting investors. Incorporation could enhance the store's credibility and access to funding, which might be useful in opening additional locations in the future. However, Roozbeh is hesitant

about the costs and administrative demands of incorporation, including corporate tax filings and formal record-keeping. Roozbeh also fears losing the community-driven identity that defines their small business.

Roozbeh needs to decide how to structure Fork & Field before pursuing the expansion. The timing is important, as her lease renewal is approaching, and the market for prime locations is tightening. Her decision will influence how the company grows, who has control, and how risk and reward are managed.

Discussion Questions

1. What are the advantages and disadvantages of each ownership structure Roozbeh is considering? Based on their goals, what factors should they prioritize in their decision?
2. What reasons did Roozbeh have for launching Fork & Field as a small business, and what opportunities and threats are they currently facing?
3. If Roozbeh incorporated their business, what changes might they expect in terms of liability, financing, and day-to-day operations? How might this affect their ability to maintain the store's local identity?

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Case Study 7: Organizing for Growth at Riverstone Outdoor Gear

This case study is associated with Chapter 7: Management and Leadership.

Alex Carter, the newly promoted Operations Manager at Riverstone Outdoor Gear, is facing a challenge. The company has grown rapidly over the past two years, and its once-simple structure is starting to show signs of strain. Employees are unclear about who makes decisions, departments are duplicating work, and long-term planning is inconsistent. Alex is responsible for improving coordination across the company and helping senior leadership prepare for the next phase of growth. Alex knows that how the company is structured—and how it plans—will be critical to its continued success.

Riverstone Outdoor Gear is a Canadian company based in Kelowna, British Columbia. It designs and sells outdoor equipment such as backpacks, tents, and hiking accessories. The company employs about 150 people and sells its products through both retail partners and its own e-commerce site. Riverstone has built a strong brand by focusing on sustainability and durability, and it has a loyal customer base across Canada. As demand grows, the company is expanding into the U.S. market and adding new product lines, which is putting pressure on its internal systems and leadership structure.

Alex works closely with the company's three levels of management. The top-level executives, including the CEO and CFO, focus on long-term strategy and major financial decisions. Middle managers, like department

heads in marketing, product development, and logistics, are responsible for translating those strategies into operational plans. Front-line supervisors manage day-to-day tasks and ensure that employees meet production and service goals. Alex realizes that improving communication and clarity between these levels is essential.

He also needs to recommend a better way to organize the company's departments. Currently, Riverstone uses a functional structure, with departments based on business functions like sales, finance, and production. However, as the company grows, this model is creating silos. One option is to shift to a product-based departmentalization, where teams are organized around product lines such as camping gear, travel accessories, and apparel. Another option is to use geographic departmentalization to better serve the Canadian and U.S. markets separately. A third option is to adopt a matrix structure, combining functional and product-based approaches, though this could increase complexity.

In addition to restructuring, Alex is tasked with helping the executive team improve its planning process. Right now, most planning is reactive and short-term. Alex believes the company needs to adopt a more formal approach to strategic planning. This would involve setting long-term goals, analyzing internal and external environments, and aligning resources to achieve those goals. Alex knows that without a clear strategic plan, Riverstone risks losing focus as it grows.

Alex prepares to present their recommendations to the leadership team. They know that the company's structure and planning process must evolve to support its growth, but each option has trade-offs. The decisions made now will shape how Riverstone operates for years to come.

Discussion Questions

1. What are the three levels of management at Riverstone Outdoor Gear, and what are the responsibilities at each level?
2. What are the advantages and disadvantages of the different departmentalization options Alex is considering?
3. Why is strategic planning important for Riverstone at this stage, and what steps should the company take to develop an effective strategic plan?

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Case Study 8: Motivating the Team at NovaCare Wellness

This case study is associated with Chapter 7: Management and Leadership.

Huan Li, the Clinic Manager at NovaCare Wellness, is concerned about a recent drop in employee engagement. The clinic, which offers physiotherapy, massage therapy, and wellness coaching, has grown

quickly over the past year. While patient numbers are up, staff morale is down. Huan notices that some team members are arriving late, others are missing deadlines, and a few have even started looking for jobs elsewhere. Huan knows that if they don't address the issue soon, the clinic's reputation and performance could suffer.

NovaCare Wellness is a mid-sized health and wellness clinic located in Mississauga, Ontario. It employs 35 people, including physiotherapists, massage therapists, administrative staff, and wellness coaches. The clinic serves a diverse client base and is known for its personalized care and community outreach. Huan, who has been with the company for five years, is responsible for day-to-day operations, staff scheduling, and performance management. They report directly to the clinic's founder and CEO, Maria Lopez.

Huan begins by meeting with team members to understand what's going on. Some employees say they feel overworked and underappreciated. Others mention that they don't see a clear path for growth or advancement. A few say they enjoy the work but feel disconnected from the clinic's goals. Huan realizes that different people are motivated by different things, and they need to find a way to address these concerns using a variety of approaches.

Huan considers several motivational theories to guide their strategy. One is Maslow's Hierarchy of Needs, which suggests that people are motivated to meet basic needs before they seek higher-level goals like belonging and self-actualization. Huan wonders if some employees are struggling with job security or work-life balance, which could be affecting their motivation.

Huan also looks at Herzberg's Two-Factor Theory, which separates hygiene factors (like salary and working conditions) from motivators (like recognition and achievement). Huan thinks that while the clinic offers competitive pay, it may be lacking in recognition and opportunities for personal growth.

Finally, Huan considers the Expectancy Theory, which suggests that motivation depends on whether people believe their effort will lead to good performance, that performance will lead to rewards, and that the rewards are valuable to them. Huan realizes that some employees may not see a clear link between their work and outcomes, or may not value the rewards currently offered by the clinic.

Huan prepares to present a plan to Maria that includes a mix of short-term and long-term actions. These include creating clearer career paths, offering more regular feedback and recognition, and involving staff in setting team goals. Huan also wants to ensure that employees understand how their efforts contribute to the clinic's success and that rewards are meaningful and aligned with their values. Huan knows that improving motivation won't happen overnight, but they believe that applying the right theories can help them build a more engaged and productive team.

Discussion Questions

1. Which motivational theories are most relevant to the challenges Huan is facing at NovaCare Wellness, and why?
2. How could Huan apply Herzberg's Two-Factor Theory to improve employee motivation at the clinic?
3. How can Expectancy Theory help Huan design a more effective motivation strategy for their team?

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Case Study 9: BrewNook Specialty Teas

This case study is associated with Chapter 8: Marketing Management.

Ishrat Hassan, the marketing lead at BrewNook Specialty Teas, is facing a plateau in customer acquisition despite a recent uptick in website visitors. While existing customers give positive reviews and repurchase rates are steady, the company's new product line—herbal tea blends designed for evening relaxation—is underperforming. Ishrat believes the issue stems from the marketing mix not being aligned with target customer expectations, and they need to act quickly before the upcoming winter season, which historically drives the highest tea sales. This decision is crucial to Ishrat as their team is responsible for managing brand reputation and sustaining revenue from new product offerings.

BrewNook operates out of Victoria, British Columbia, and employs 15 full-time staff. The company sells loose-leaf tea blends and accessories through its online store and two retail kiosks located in urban shopping centers. Its core customer base consists of health-conscious consumers aged 25–55 who value small-batch, natural products. Revenue is primarily generated through e-commerce, with sales peaking during gift-giving seasons. The new product line, "Nightbrew," is formulated to appeal to customers seeking caffeine-free, calming beverages. Despite this, early indicators suggested that website visitors are not converting to buyers at the expected rate, and retail staff report that many kiosk visitors are unaware that Nightbrew is a distinct product category.

Ishrat considers repositioning the product within the marketing mix. First, they can revise the product packaging and descriptions to more clearly emphasize the calming, health-related attributes of Nightbrew. This can help reinforce its differentiation as a specialty wellness item rather than a standard tea flavour. Refining the product's classification can shift customer perception and clarify its intended value.

A second option focuses on pricing strategy. Nightbrew is priced similarly to BrewNook's traditional teas, but Ishrat wonders if this fails to signal its premium ingredients and functional purpose. Adjusting the price upward slightly can reposition the product as a targeted wellness solution, appealing to buyers seeking quality over quantity. However, Ishrat also needs to ensure that the value communicated through other elements of the mix supports this potential change.

A third option involves overhauling the promotional approach using integrated marketing communications. The current promotion relies heavily on weekly email newsletters and Instagram posts. Ishrat proposes launching a focused campaign that includes short explainer videos, podcast sponsorships in the wellness category, and sampling partnerships with sleep product brands. This strategy involves cohesive messaging across multiple platforms and provides more detailed product education for new customers.

With only six weeks before peak winter sales begin, Ishrat needs to realign the 4Ps to ensure Nightbrew

reaches its intended market. Without a timely response, the product risks being overlooked despite its potential fit within growing wellness trends.

Discussion Questions

1. Identify and describe the four elements of the marketing mix used in this case. How are they currently being applied, and what changes could better support Nightbrew's success?
2. How is BrewNook attempting to differentiate Nightbrew, and what role does product classification play in shaping marketing strategy?
3. How might BrewNook integrate the various promotional activities to improve promotional effectiveness for Nightbrew?

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Case Study 10: Managing Risk at PrairieTech Solutions

This case study is associated with Chapter 12: Information and Risk Management.

Avery Sinclair, the Chief Operating Officer at PrairieTech Solutions, is preparing for a board meeting where they must present a risk management plan for the company's upcoming product launch. PrairieTech, a Regina-based software firm, is preparing to release a new cloud-based platform for small business accounting. The product has strong market potential, but Avery knows that launching new technology always comes with risk. They need to assess how much risk the company is willing to take and how to manage it effectively.

PrairieTech employs 60 people and serves clients across Western Canada. The company has a reputation for reliable, user-friendly software and strong customer support. Its leadership team is ambitious but cautious. Avery knows that the company's risk tolerance is shaped by several factors. First, its financial position is stable but not overly liquid, so a failed launch could strain resources. Second, the company's leadership culture values careful planning and long-term relationships over rapid growth. Third, PrairieTech operates in a regulated industry where data security and compliance are critical.

Avery begins by identifying the potential risks associated with the product launch. These include technical failures, cybersecurity threats, customer adoption delays, and reputational damage if the product underperforms. They use the five steps of risk management to guide their approach: identifying risks, assessing their likelihood and impact, developing response strategies, implementing the plan, and monitoring outcomes.

To respond to these risks, Avery considers three main strategies. For technical failures, they recommend *risk mitigation* by investing in additional testing and quality assurance. For cybersecurity threats, they propose *risk*

transfer by purchasing cyber liability insurance. For customer adoption delays, they suggest *risk acceptance*, recognizing that some uncertainty is unavoidable and planning to adjust marketing efforts as needed.

As Avery finalizes their presentation, they reflect on how risk is a natural part of doing business. The key is not to avoid risk entirely, but to understand it, plan for it, and make informed decisions that align with the company's goals and values.

Discussion Questions

1. What three factors influence PrairieTech's risk tolerance, and how do they shape the company's approach to the product launch?
2. What are the five steps of risk management, and how does Avery apply them in this case?
3. What are the three risk response strategies Avery uses, and what examples do they provide for each?

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GLOSSARY OF TERMS

Absolute advantage

The type of advantage that exists when a nation is (1) the only source of a particular product, or (2) it can make more of a product using fewer resources than other countries.

Academic integrity

A commitment to acting with honesty, trust, fairness, respect, and responsibility in academic work and studies.

Accessibility

The practice of making information, activities, and/or environments sensible, meaningful, and usable for as many people as possible.

Accounting

The organizational function that is focused on recording, keeping, analyzing and communicating financial information.

Advertising

Paid, non-personal communication designed to create an awareness of a product or company.

Assets

Resources from which a business expects to gain some future benefit.

Audit

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

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

An economic measure that represents the difference between the value of a country's exports and the value of its imports over a specific period.

Balance sheet

A financial report that shows assets, liabilities, and equity invested in the business at a specific point in time.

Bank of Canada

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

A process of comparing an organization's practices and performance with those of others to identify opportunities for improving efficiency and effectiveness.

Benefits

Compensation other than salaries, hourly wages, or financial incentives. Usually includes paid time off, health insurance and retirement benefits.

Big data

Large and complex datasets that cannot be handled by traditional data-processing methods. The defining characteristics of big data are volume, velocity, variety, veracity, and value (the 5Vs).

Brand strategy

A strategy that shapes the overall experience customers have with a company, exemplifying its values, promises, and personality.

Budget

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

An evaluation that compares actual financial performance to the planned budget, providing insight into how well an organization is adhering to its financial goals.

Business

An organization that strives for a profit by providing goods and services desired by its customers.

Business cycle

The regular economic pattern of upturns and downturns in demand and output within the economy that tends to repeat itself every three to five years.

Business environment analysis

A systematic process that evaluates the internal and external factors impacting a business.

Business etiquette

A type of social and business behaviour that team members (whether at school or work) are expected to exhibit.

Business information

Collective data related to a company and its operations, including statistical information, raw analytical data, customer feedback, and sales numbers.

Business law

Rules, statutes, codes, and regulations established to provide a legal framework within which business may be conducted.

Business participants

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 plan

A written document that outlines a company's goals and explains how it plans to achieve them. It typically includes details about the business, its products or services, target market, marketing strategy, operations, and financial projections.

Business risk

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 a business operates.

Canadian Charter of Rights and Freedoms

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

A federal law that protects individuals from discrimination in federally regulated workplaces and services based on race, gender, disability, and other grounds.

Capacity requirements

The maximum number of goods that a facility can produce over a given time under normal working conditions.

Capital budget

A budget that considers the company's long-range plans and outlines the needs for significant capital purchases such as real estate, manufacturing equipment, plant expansions, or technology.

Capitalism

An economic system that promotes the creation and ownership of capital and wealth.

Carroll's pyramid

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.

Circular economy

An approach that emphasizes the restoration and regeneration of products, materials and energy that encourages manufacturers to design products and business models with durability, repairability and recyclability in mind.

Circular flow model

A way of depicting how money circulates back and forth through the economy from households to businesses in the form of labour and the purchase of goods and services.

Citation style

A style that dictates the information necessary for a citation and how the information is ordered, as well as punctuation and other formatting conventions.

Coincident indicators

Statistical tools that show the state of the economy today.

Communication skills

The ability to communicate with others, both orally and in writing.

Communism

A political and economic system that aims to eliminate class distinction by sharing wealth equally and having the public own the means of production, such as factories and mines.

Comparative advantage

The type of advantage that exists when a country can produce a product at a lower opportunity cost compared to another nation.

Compensation packages

A total reward offering provided to an employee, including salary, benefits (such as health insurance and retirement plans), bonuses, paid time off, and other perks or incentives.

Competitor analysis

An assessment of similar brands within the same industry to gain insight into other companies' products, branding, sales strategies, and marketing approaches.

Compound interest

The interest earned on both the original amount (the principal) and any interest that has already been added, which allows money to grow faster over time.

Computer-aided design (CAD)

The use of computer software to create, modify, analyze, or optimize a design.

Computer-aided manufacturing (CAM)

The use of computer software and hardware to control and automate manufacturing processes.

Computer-integrated manufacturing (CIM)

A comprehensive approach to manufacturing where CAD, CAM, and other business and manufacturing processes are integrated using computer systems.

Conceptual skills

The ability to reason abstractly and analyze complex situations.

Conflicts of interest

Struggles that occur when individuals must choose between taking actions that promote their personal interests over the interests of others.

Conflicts of loyalty

Tensions that 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 price index (CPI)

An index that 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

A plan outlining actions to take when unexpected problems occur, ensuring continuity and minimizing impact.

Contingent workers

Personnel hired to supplement a company's permanent workforce.

Controlling

A function of management that ensures that performance does not deviate from standards.

Corporate philanthropy

When a business voluntarily gives money, resources, or time to support charitable causes and community initiatives.

Corporate social responsibility

A business model by which companies make a concerted effort to operate in ways that enhance rather than degrade society and the environment.

Corporation

A legally separate entity from its owners, offering limited liability protection, the ability to raise capital through shares, and continuity beyond the involvement of its founders.

Cost of goods sold

The total cost of the goods that a business has sold.

Costs

Expenses including rent, salaries, supplies, transportation, etc. that a company incurs from creating and selling goods and services.

Credits

In the double-entry method of accounting, an entry on the right side of an account made to decrease asset or expense accounts and increase liability, revenue or equity accounts.

Cultural environment

A set of factors that shape the way people interact with each other and their physical and social environment.

CUSMA

A free trade agreement between Canada, the United States, and Mexico, which replaced the NAFTA free trade agreement.

Customer divisions

An organizational design where the company is structured around different customer groups or segments.

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

A marketing strategy that focuses on using information about current customers to nurture and maintain strong relationships with them.

Data mining

The use of techniques like clustering, classification, and predictive modelling to extract valuable patterns and relationships from large datasets to derive actionable insights.

Data security

Practices, technologies, and policies to protect sensitive information from breaches, unauthorized access, and cyberattacks.

Debits

In a double-entry method of accounting, an entry on the left side of an account made to increase an asset or expense account and decrease a liability, revenue or equity account.

Debt financing

A method of raising capital by borrowing money that must be repaid over time, usually with interest. It does not require giving up a portion of ownership in the company.

Debt ratios

Ratios that look at how much a company has borrowed 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 is that new lenders will approve loan applications.

Decision-making

The action or process of thinking through possible options and selecting the one that seems most appropriate.

Decision-making skills

The process of defining a problem, analyzing possible solutions, and selecting the best outcome.

Deflation

A period of falling demand and prices, usually accompanied by reduced output and rising unemployment.

Demand

The quantity of a product that buyers are willing to purchase at various prices.

Democratic leaders

Leaders who encourage discussion about issues and require all parties to vote on the decision.

Departmentalization

A grouping of specialized jobs into meaningful units.

Digital currencies

Currencies that are only accessible with computers or mobile phones because they only exist in electronic form.

Diversity

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

Double-entry accounting

A system that records every transaction with a debit and credit in two or more accounts in a company's general ledger.

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).

Economic development

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

A statistical tool that provides 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.

Economic responsibility

The practice of making financial decisions based on a commitment to doing good.

Economics

The study of how individuals, businesses, governments and nations allocate their limited resources to satisfy their unlimited wants and needs.

Effectiveness

The ability to produce a desired result.

Efficiency

The ability of a business to accomplish tasks and achieve objectives using the least possible amount of resources while maintaining the desired level of quality and performance.

Efficiency ratios

Ratios that indicate how well a company's assets are being managed.

Embargo

An extreme form of quota that, for economic or political reasons, bans the import or export of certain goods to or from a specific country.

Employability skills

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

A Canadian law that requires federally regulated employers to take proactive steps to improve job opportunities for women, Indigenous peoples, persons with disabilities, and visible minorities.

Employment-related legislation

Legislation that covers employment standards, human rights, federal and provincial privacy, occupational health and safety, workers' compensation, and labour regulations.

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)

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).

Equilibrium price

The price point at which the demand and supply curves intersect.

Equity

A process that ensures everyone has access to the same opportunities.

Equity financing

A method of raising capital by selling shares of a company to investors. It carries no repayment obligation and provides extra working capital that can be used to grow a business, but it does mean sharing profits and decision-making power with shareholders.

ESG

An acronym for Environmental, Social, and Governance that refers to a set of standards used by businesses to evaluate and address their impact on the world, beyond just financial performance.

Ethical dilemmas

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

Challenging social questions that involve disagreement or uncertainty about what is morally right or fair.

Ethical lapse

A mistake or error in judgment that produces a harmful outcome. It is a failure to follow proper ethical principles.

Ethical responsibilities

The responsibility to ensure fair practices and treat customers, employees, and stakeholders with respect.

Ethics

The philosophical discipline concerned with what is morally good and bad, and morally right and wrong.

European Union (EU)

A unique economic and political union between 27 European countries that have eliminated trade barriers among themselves.

Exchange rate

In the foreign exchange market, currencies are bought and sold like goods in any other market. The exchange rate is the price of one currency expressed in terms of another—it tells you how much of one currency you need to buy a unit of another.

Exporting

The process of selling domestic products to foreign customers.

Extrinsic motivation

When motivation comes from external factors, in other words, a person needs an incentive to be, stay, or become motivated.

Facility layout

The physical arrangement of resources to ensure a smooth flow of production.

Factors of production

The resources used to create goods and services.

Fiduciary responsibility

The obligation that managers have to act in the best interests of the company's stakeholders by protecting its assets and managing its money honestly and responsibly.

Financial accountant

A professional responsible for preparing and reporting a company's financial information in accordance with established accounting standards, such as GAAP or IFRS.

Financial budget

A budget that plans the use of assets and liabilities and results in a projected balance sheet.

Financial controller

An officer of a company responsible for updating financial controls and overseeing all the accounting activities in an organization.

Financial controls

Procedures and policies that monitor and manage financial resources to prevent errors, fraud, and optimize allocation.

Financial management

The planning and budgeting of short- and long-term funds for current and future needs. Generally, the finance department comprises two divisions: accounting and financial management.

Financial manager

The person responsible for managing the company's financial resources and ensuring the financial stability and growth of the organization by optimizing financial performance and minimizing risks.

Financial planning

The ongoing process of managing your personal finances in order to meet goals that you've set for yourself or your family.

First-line managers

The management level, also referred to as customer-facing or front-line management, coordinates

activities, supervises employees, reports to middle managers, and is involved in day-to-day operations of an organization.

Fiscal policy

How governments use spending and taxation to influence economic growth, employment, and inflation.

Flextime

A work schedule arrangement that allows employees to choose their starting and ending times within a set range, while still working the required number of hours.

Forecasts

The prediction of revenue, costs and expenses for a specific future period. Short-term forecasts include predictions for the upcoming year, while long-term forecasts include predictions for a period longer than one year into the future.

Foreign direct investment (FDI)

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.

Free market economy

An economic system where the laws of supply and demand determine prices, and the government has limited or no involvement

Free market system

An economic system that operates according to 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

An index designed to measure the performance of companies demonstrating specific Environmental, Social and Governance (ESG) practices.

Functional areas in a business

Different departments or sections that perform specific tasks, such as human resources, operations, accounting, and finance.

Gantt chart

An easy-to-use graphical tool that helps operations managers determine the status of projects.

Generally Accepted Accounting Principles (GAAP)

GAAP (Generally Accepted Accounting Principles) are standardized rules and guidelines used by publicly traded companies in the U.S. to ensure financial statements are consistent, transparent, and comparable.

Geographical divisions

An organizational design where a company is structured by geographical location, enabling it to respond to customers more effectively based on their location.

Globalization

The process of increasing economic and social integration between countries, and the increased flow of goods, services, and people across borders.

Goods

Tangible items manufactured and sold by a business.

GPA score (Grade Point Average)

A cumulation of the grades across the courses throughout your program.

Greenwashing

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)

The market value of all goods and services produced by the economy in a given year.

Gross national product (GNP)

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 revenue and cost of goods sold. Also known as gross margin.

Health and safety

The policies, procedures, and practices that businesses put in place to protect employees from injury, illness, and other risks while on the job.

HR forecasting

The process of predicting how a company's staffing needs change with time, so that it can remain prepared to operate successfully.

Human resource management

The process of hiring, developing, motivating, and evaluating employees to achieve organizational goals.

Human resources (HR)

An organizational function that is about searching for, selecting, training, and maintaining workers.

IDEA

An acronym for inclusion, diversity, equity, and accessibility. Collectively, a set of practices that aim to ensure that people from a variety of backgrounds are represented and can thrive.

Importing

The process of buying products overseas and reselling them in one’s own country.

Inclusion

Accounting for differences among individuals and groups when designing something (e.g., policy, program, curriculum, buildings, shared space) to avoid creating barriers.

Inclusive workforce

A workforce that includes employees who are underrepresented in the workplace according to sex, race, or some other characteristic.

Income statement

A financial report that shows revenues, expenses, and whether or not a profit was made over a specific period of time.

Industry life cycle

The industry life cycle describes the four stages an industry goes through—expansion, peak, contraction, and trough. Understanding these stages helps businesses make informed decisions about investment, innovation, and growth.

Inflation

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

The collection, storage, organization, and distribution of information to optimize business operations and decision-making.

Information risk management

Policies, procedures, and technology that an organization adopts to reduce the threats, vulnerabilities, and consequences that could arise if data is not protected

Information sharing

The process of exchanging data, knowledge, or insights between teams or organizations. Effective information sharing enhances collaboration and decision-making within and between organizations.

Information technology

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

The stage in the selection process where a candidate completes an application form and/or submits a résumé, and has a brief interview of 30 minutes or less.

Inputs

The elements which go into producing a good or service, such as labour, raw materials, capital, land, entrepreneurship, etc.

Internal business environment

Elements within an organization that influence its operations and decision-making including factors like the company's culture, management practices, employees, and work processes.

International contract manufacturing

A form of outsourcing in which companies manufacture their products in another country to take advantage of lower labour costs.

International Financial Reporting Standards (IFRS)

A set of global accounting standards that provide guidelines for how companies should prepare and present their financial statements. IFRS is used in over 140 countries, including Canada.

International franchise agreement

An agreement under which 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 agreement that 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 (IMF)

An international organization composed of 191 member countries that is governed by and accountable to its members and plays a central role in the global financial system.

Interpersonal skills

The relational skills necessary to get along with and motivate other people. Most essential for managers in mid-level positions.

Intrinsic motivation

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.

Investing

Putting money into something—like shares, real estate, or a business—with the goal of earning more money over time.

Involuntary termination

A situation where an employer ends an employee's employment without the employee's consent. Such a situation can happen for a number of reasons, including poor performance, unprofessional behaviour, policy violations, economic factors, and organizational changes.

Job analysis

An analysis that identifies the tasks, responsibilities, and skills that a job entails, as well as the knowledge and abilities needed to perform it.

Job description

A representation of the duties and responsibilities of a position.

Job enlargement

The practice of enhancing a job by adding tasks at similar skill levels.

Job enrichment

The practice of adding tasks that increase both responsibility and opportunity for growth.

Job rotation

A practice that 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

An arrangement whereby two people share one full-time position, splitting the salary and benefits of the position as each handles half the job.

Job specialization

The division of activities into clusters of related tasks that can be handled by certain individuals or groups.

Job specification

Description of the qualifications—skills, knowledge, and abilities— needed to perform the job.

Joint venture

When two or more companies form 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:

An inventory control method where the manufacturer arranges for materials to arrive at production facilities just in time to enter the manufacturing process.

Labelling

Information on a product's packaging that is used to identify the product and provide important details such as its contents, manufacturer, origin, usage instructions, and safety warnings.

Lagging indicators

Statistical tools that show the health of the economy in the recent past.

Law of supply and demand

An economic theory that explains how the relationship between supply and demand determines prices. When supply is greater than demand, prices fall, and prices rise when demand is greater than supply.

Leadership style

The relatively consistent way that individuals in leadership positions attempt to influence the behaviour of others.

Leading

Providing focus and direction to others and motivating them to achieve organizational goals.

Leading indicators

Statistical tools that offer a prediction of future events.

Learning styles

The different ways by which a person takes in, understands, expresses and remembers information. There are four predominant learning styles: Visual, Auditory, Read/Write, and Kinaesthetic.

Legal compliance

Conducting a business within the boundaries of all the legal regulations of a particular industry.

Legal responsibility

The responsibility to comply with laws and regulations at the local, national, and international levels.

Liabilities

Debts that a business owes to outside individuals or organizations.

Lifelong learning

The ongoing, voluntary, and self-motivated pursuit of knowledge for either personal or professional reasons.

Liquidity ratios

Ratios that show 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.

Loss

That which occurs when costs and expenditures are greater than revenue.

M-1 money

The narrowest measure of money that includes the most liquid forms of money, such as cash and chequing account funds that are spent immediately.

M-2 money

A measure of money that 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 broader conditions of an economy as opposed to specific markets.

Macroeconomics

A branch of economics that looks at the decisions of countries and governments.

Make-to-order

The process of designing products to meet the needs of the buyers who order them.

Managerial accounting

The process of identifying, measuring, analyzing, and interpreting financial information for use by internal management to plan, control, and make decisions within an organization.

Managers

Those who are considered to be a company's designated leaders according to its organizational structure.

Market segments

Groups of potential customers with common demographic, geographic, behavioural, and psychographic characteristics that influence their buying decisions.

Marketing

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

A business philosophy where the organization's goals are achieved by identifying customer needs and delivering value more effectively than its competitors.

Marketing mix

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 plan used by organizations to determine a target market and then develop a marketing mix to meet the needs of that market.

Mass customization

An approach that combines the advantages of make-to-order processes with mass production. It requires the manufacturer to find precisely what the customer wants and then manufacture the goods, using efficient production methods to reduce costs.

Mass production

The practice of producing high volumes of identical goods at a cost low enough to price them for a large numbers of customers. Also called make-to-stock.

Material requirements planning (MRP)

A software tool that relies on sales forecasts and ordering lead times for materials to calculate the quantity of each part needed for production and determine when it should be ordered or made.

Micro-environment

Groups and organizations that have a direct relationship with the business.

Microeconomics

A branch of economics that focuses on the study of individuals and business decisions.

Middle-level managers

The management level responsible for allocating resources, overseeing first-line managers, reporting to top-level managers and developing and implementing activities.

Minimum wage

The lowest hourly pay rate that employers are legally allowed to pay their workers, as set by the government. It's designed to help ensure that employees earn a basic standard of living for their work.

Mixed economy

An economic system where some resources are planned for by the government, while citizens control others.

Mixed market

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

Policy concerned with the supply of money, rates of interest, exchange rates and the amount of credit available in order to control the level of spending within the economy.

Money

Anything that is acceptable as payment for goods and services.

Monopolistic competition

Competition that 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 market structure characterized by a single seller, selling a unique product in the market where the seller faces no competition, as the seller is the sole provider of the goods with no close substitute.

Multinational corporation (MNC)

A company that operates in many countries.

National debt

The liabilities of the government sector. Historically, government deficits occur more often than surpluses since the government typically spends more than it takes in.

National deficit

A deficit that occurs when a government spends more money than it receives in revenue over a period of time.

Net income

The difference between gross profit and operating expenses. It is the proverbial "bottom line."

Non-profit or voluntary sector

Non-governmental, non-profit organizations that receive support from individual citizens, the government, and businesses.

Not-for-profit organization

An organization that exists to achieve some goal other than gaining profit.

Oligopoly

A market in which there are only a few sellers and where each seller supplies a large portion of all the products sold in the marketplace.

Operating budget

A budget that helps plan future revenue and expenses and results in a projected income statement.

Operating expenses

The costs of operating a business, except for the costs of things that were sold.

Operational planning

Short-term planning mostly undertaken by first-level managers over the course of one year that is designed to achieve organization-wide or sub-unit goals.

Operations

The organizational function that is focused on producing the goods and/or services of the business.

Operations management

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

Those who manage the process that transforms inputs into outputs. Their responsibilities include production planning, production control, and quality control.

Opportunity cost

That which must be given up to obtain something that is desired.

Organizational charts

Charts used by businesses to depict the reporting structure within the organization.

Organizing

The second management function. It is the process of coordinating and allocating a firm's resources in order to carry out its plans.

Orientation program

Training that introduces a new employee to the company's people, policies, and procedures.

Outputs

The finished product that comes from a production process.

Outsourcing

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

The owner's investment in a business.

Packaging

The container or wrapper for a product that is designed to attract a customer's attention.

Participative leaders

Leaders who share decision making with group members and encourage discussion of issues and alternatives; includes leaders with democratic, consensual, and consultative styles.

Partnership

A business owned and operated by two or more individuals who share management responsibilities, profits, and liabilities according to a partnership agreement.

Partnership agreement

An agreement that clearly defines each partner's rights and responsibilities, thereby reducing the risk of disputes between partners.

Perceived risks

Risks based on feelings, fears, or assumptions that lack concrete evidence, often resulting from misinformation, cognitive biases, or heightened awareness.

Perfect competition

The type of competition that occurs when many consumers buy 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.

Performance appraisals

Conducted on a semiannual or annual basis to discuss and evaluate employees' work performance.

Personal budget

A plan to track your income and spending to help you manage money, avoid debt, and save for goals.

Personal finance

The application of financial principles to the monetary decisions that you make, either for your individual benefit or for that of your family.

Personal selling

One-on-one communication with customers or potential customers.

PERT charts

Charts designed to plot the activities required to produce a product, specify the time required to perform each activity in the process, and organize activities in the most efficient sequence.

PEST Analysis

An external environment scan, whereby an organization collects and analyzes data on the political, economic, social, and technological aspects of the business environment in which the organization operates.

Philanthropic responsibility

A business's commitment to improving society through charitable activities, community support, and social initiatives.

Place

The third of the "4Ps" of marketing refers to where and how a company sells its products to consumers.

Planned economy

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

An economic system in which the elements of an economy (such as labour, capital, and natural resources)

are subject to government control and regulation designed to achieve the objectives of a comprehensive plan of economic development.

Planning

The function of management that involves setting objectives and determining a course of action for achieving those objectives.

Price

The only element of the marketing mix that directly generates revenue for a company.

Price stability

A period of time when prices are at a relatively stable level, the economy doesn't experience long periods of inflation or deflation, and the value of money is sustained over time.

Private sector

Goods and services produced and delivered by private individuals or groups as a means of enterprise for profit.

Process divisions

An organizational design where the company is structured around the processes needed to create a product or service.

Producer price index (PPI)

The index that 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

The first 'P" of the marketing mix refers to both products and services.

Product life cycle

A theoretical model describing a product's sales and profits over the course of its lifetime.

Production

The process of transforming inputs (such as labour, capital, and raw materials) into outputs (goods and services) that a company wishes to sell.

Production planning

The process of aligning production schedules with demand forecasts, resource availability, and capacity, while coordinating with key departments to ensure efficient and continuous operations.

Productivity

The efficiency with which goods and services are produced.

Professionalism

A broad concept that includes a person's attitude, appearance, work ethic, and conduct.

Profit

The money a company has left over after paying all its costs.

Profitability ratios

Ratios that indicate how much profit is made relative to the amount invested (return on investment) or the amount sold (return on sales).

Promotional mix

The means by which a company communicates with its customers, which can include advertising, social media, email marketing, personal selling, sales promotion, public relations, and more.

Public relations (PR)

The practice of managing how others see and feel about a person, brand, or company.

Public sector

Goods and services produced, delivered, and allocated by the government and public sector organizations (publicly controlled government business enterprises).

Purchasing

The process of acquiring the materials and services to be used in production (also called procurement).

Quality

The degree to which a product or service meets or exceeds customer expectations and adheres to established standards or specifications.

Quality of life

The general level of human happiness based on factors including life expectancy, educational standards, health, sanitation, and leisure time.

Quota

Limitations on the quantity of a good that can be imported into a country over a period of time.

Real risks

Risks backed by data, evidence, or historical trends that are measurable and often require proactive mitigation.

Recruiting

The process of identifying suitable candidates and encouraging them to apply for openings in the organization.

References

People who will attest to your skills and abilities usually former or current employers.

Relationship-building roles

Roles that help team members understand the part they play in a team, support them in their roles, and maintain or improve group cohesiveness.

Revenue

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

The structured process of identifying potential threats, evaluating their likelihood and impact, and developing strategies to minimize or eliminate their adverse effects.

Risk tolerance

In a business context, the degree of uncertainty and potential loss that an organization is willing to accept to achieve its objectives.

Scarcity

A key concept of economics, it occurs when the demand for a good or service is greater than the availability of the good or service.

Secured loans

Loans that involve some type of collateral. Also known as secured credit.

Selection interview

An in-depth discussion with a candidate about their work experience, skills and abilities, education, and career interests.

Selection process

The process of determining which people in the applicant pool possess the qualifications necessary to be successful on the job.

Services

Intangible offerings of a business that can't be held, touched, or stored

SERVQUAL model

A model commonly used in service industries to measure quality across five dimensions: reliability, responsiveness, assurance, empathy, and tangibles, allowing businesses to identify specific areas where they can improve to meet or exceed customer expectations.

Sexual harassment

Conduct that 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 in return for employment, training, or promotion.

Site selection

The process of 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

An acronym used to guide effective goal setting, where goals are Specific, Measurable, Attainable, Relevant, and Time-Based.

Social media marketing

The practice of including social media as part of a company’s marketing program.

Socialism

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 equitable society.

Sole proprietorship

A simple and informal business structure that is easy to establish, making it the most common choice for new entrepreneurs.

Span of Control

The total number of direct subordinates that a manager can control or manage.

SQ4R reading system

A reading system 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

Those affected by the business's operations and its decisions. Examples include shareholders, investors, the community, customers, competitors, and governmental agencies.

Standard of living

The level of comfort that people in a particular class or country have is measured by the output of goods and services that people can buy with their money.

Statement of cash flows

A financial report that shows how much cash is coming in and going out of a business over a specific period of time.

Statistical process control (SPC)

The use of statistical techniques to control a process or production method.

Strategic alliance

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

The steps that an organization takes 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

The practice of setting goals and objectives, analyzing internal and external business factors, product planning, implementation, and tracking progress.

Strategic planning

The analysis of competitive opportunities and threats, as well as the strengths and weaknesses of the organization to determine how to position the organization to compete effectively in its environment.

Stress

A physical, mental, and emotional response to a difficult event.

Supply

The quantity of a product that sellers are willing to sell at various prices.

Supply chain

The network of individuals, organizations, resources, activities, and technologies involved in the production and distribution of a product or service.

Supply chain management (SCM)

The monitoring and optimization of the production and distribution of a company's products and services.

Sustainable Development Goals (SDGs)

A set of 17 goals set out by the United Nations that aim to achieve peace and prosperity for people and the planet.

SWOT analysis

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

Intermediate-range planning mostly undertaken by middle-level managers over the course of one to three years that is designed to develop relatively concrete and specific means to implement the strategic plan.

Target market

A group of consumers, with similar needs and wants, likeliest to buy a company's product or service, toward which a firm directs its marketing efforts.

Tariffs

Taxes on imports.

Task-facilitating roles

Roles that help a team accomplish its goals.

Team

A group of people with certain skills who share a common purpose, approach, and performance goals.

Team cohesion

The strength and extent of interpersonal connection existing among the members of a group.

Team conflict

The breakdown of interpersonal relationships between members of a team.

Technical skills

The skills needed to perform specific tasks.

Telecommuting

The practice of working from home or from some other non-work location.

Time management

The practice of planning and controlling how you use your time to be more productive and efficient.

Time management skills

Techniques that help you plan and organize your time to complete tasks and achieve goals.

Time value of money

The concept that money available now has greater potential to grow than the same amount received later, thanks to earning opportunities like interest or investment returns.

Top-level managers

The management level responsible for setting objectives, scanning the business environment, and planning and making decisions that affect the overall health of the organization.

Total quality management (TQM)

The continual process of detecting and reducing or eliminating errors in manufacturing to streamline supply chain management, improve the customer experience, and ensure that employees are well-trained.

Trade controls

Policies that restrict free trade by allowing governments to continue to control trade.

Trade surplus

A favourable balance of trade that occurs when a country sells more products to other countries than it buys from them.

Transformational leadership

A leadership style that motivates and inspires positive change in followers.

Unemployment rate

The percentage of the labour force that is unemployed and actively seeking work.

Utility

A product or service's inherent usefulness or ability to satisfy a customer's needs and wants. It is often measurable and tied directly to functionality.

Value

The customer’s perception of the benefits they receive compared to the cost or effort required to obtain the product.

Visualization

The process of converting data into graphical representations using tools such as Tableau, Power BI, and Google Charts to make complex datasets easier to understand and interpret.

Voluntary termination

A situation where an employee chooses to leave their job of their own accord, without pressure from their employer.

Whistleblower

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

A shared set of values, beliefs and attitudes that guide an organization, reflected in the way a company treats its customers and employees.

Work-life balance

A balance between one's personal and work life.

World Bank

An international financial institution that provides economic assistance to developing and low-income countries.

World Trade Organization (WTO)

An organization that encourages global commerce and lower trade barriers, enforces international rules of trade, and provides a forum for resolving disputes.