

EIGHTH  
CANADIAN  
EDITION

# BUSINESS

GRIFFIN  
EBERT  
STARKE  
DRACOPOULOS  
LANG

EIGHTH  
CANADIAN  
EDITION

# BUSINESS

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**PEARSON**

Toronto

**To Ann, Eric, and Grant — F. A. S.**

**This book is dedicated to our beautiful newborn son, Costa Dean, from his adoring parents — G.D. and N.D.**

**For Paul, Hannah, and Beth — M. D. L**

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# Preface

If you're like many students, you may be starting this term with some questions about why you're here. You may be taking this course at a community college or at a university, and you may be taking it in a traditional classroom setting or online. Whatever the case, you may be wondering just what you're supposed to get from this course and how it will benefit you. In short, you may be wondering, "How will this help me?"

This is a survey course designed to introduce you to the exciting and challenging world of business, both in Canada and elsewhere. The course is designed to fit the needs of a wide variety of students. You may be taking this course as the first step toward earning a degree in business, or you may be thinking about business and want to know more about it, or you may know you want to study business but are unsure of the area you want to pursue. You may plan to major in another field but want some basic business background and are taking this course as an elective. Or you may be here because this course is required or is a prerequisite for another course. Whatever your situation, this course will be helpful to you.

If you don't have a lot of work experience, you may be uncertain as to what the business world is all about. If you have a lot of work experience, you might be a bit skeptical as to what you can actually learn about business from an introductory course. One of our biggest challenges as authors is to write a book that meets the needs of such a diverse student population, especially when we acknowledge the legitimacy of your right to ask, "How will this help me?" We also want to do our best to ensure that you find the course challenging, interesting, and useful. To achieve this goal, we think it is helpful to use the old metaphor about people wearing different "hats" as they go through life. Each individual has different roles to play in different settings. For example, your roles may include student, child, spouse, employee, friend, and/or parent. You can think of each of these roles as needing a different hat—when you play the role of a student, for example, you wear one hat, but when you leave campus and go to your part-time job, you put on a different hat. From the perspective of studying and interfacing with the world of *business*, there are at least four distinct "hats" that you might wear:

- *The Employee Hat.* One hat is "worn" as an employee working for a business. Most people wear

this hat throughout their working career. To wear the hat successfully, you will need to understand your "place" in the organization—your job duties and responsibilities, how to get along with others, how to work with your boss, what your organization is all about, and so on. You'll begin to see how best to wear this hat as you learn more about organizing business enterprises in Chapter 7 and how organizations manage their human resources in Chapter 8, as well as in several other places in this book.

- *The Employer or Boss Hat.* Another business hat that many people wear is as an employer or boss. Whether you start your own business or get promoted within someone else's business, people will be working for you. You'll still need to know your job duties and responsibilities, but you'll also need to understand how to manage other people—how to motivate and reward them, how to lead them, how to deal with conflict among them, and the legal parameters that may affect how you treat them. Chapters 3, 6, 9, and 10 provide a lot of information about how you can best wear this hat, although information about the role of employer is found throughout the book.
- *The Consumer Hat.* Even if you don't work for a business, you will still wear the hat of a consumer. Whenever you fill your car with PetroCanada gasoline, bid for something on eBay, buy clothes at Urban Outfitters, or download a song from iTunes, you're consuming products or services created by businesses. To wear this hat effectively, you need to understand how to assess the value of what you're buying, your rights as a consumer, and so on. We discuss how you can best wear this hat in Chapters 2, 15, 16, and 17.
- *The Investor Hat.* The final business hat many people wear is that of an investor. You may buy your own business or work for a company that allows you to buy its stock. You may also invest in other companies through the purchase of stocks or shares of a mutual fund. In order for you to invest wisely, you must understand some basics, such as financial markets, business earnings, and the costs of investment. Chapters 4, 18, 19, 20, and Appendix B will help you learn how to best wear this hat.

Most people wear more than one of these hats at the same time. Regardless of how many hats you wear or when you may be putting them on, you will interface with many different businesses in different ways. Knowing how to best wear all of these hats is what this book is all about.

The world is populated with a breathtaking array of businesses and business opportunities. Big and small businesses, established and new businesses, broad-based and niche businesses, successful and unsuccessful businesses, global and domestic businesses—regardless of where your future plans take you, we hope that you will look back on this course as one of your positive first steps.

Keep in mind that what you get out of this course depends on at least three factors. One factor is this book and the information about business that you will acquire as a result of reading it. Another factor is your instructor, who is a dedicated professional who wants to help you grow and develop intellectually and academically. The third factor is YOU. Learning is an active process that requires you to be a major participant. Simply memorizing the key terms and concepts in this book may help you achieve an acceptable course grade, but true learning requires that you read, study, discuss, question, review, experience, evaluate—and wear the four hats—as you go along. Tests and homework are necessary, but we hope that you will finish this course with new knowledge and increased enthusiasm for the world of business. Your instructor will do his or her part to facilitate your learning. The rest, then, is up to you. We wish you success.

## What's New to the Eighth Canadian Edition

In this, the eighth Canadian edition of *Business*, we continue to emphasize our long-standing principle of “*Doing the Basics Best.*” Cutting-edge firsts, up-to-date issues that shape today’s business world, and creative pedagogy help students build a solid foundation of business knowledge. This new edition continues with the strengths that made the first seven editions so successful—comprehensiveness, accuracy, currency, and readability.

The eighth Canadian edition of *Business* incorporates many of the changes suggested by professors and students who used the seventh edition, as well as changes suggested by reviewers. The following new material has been included:

- Many new examples of business practice have been included in each of the chapters. Some of these examples are brief and some are more detailed, but they all help students to better understand business practice. For example, in Chapter 9, several important labour-relations concepts such as mediation and arbitration are explained by describing their use in the recent labour dispute between Air Canada and its unions. In Chapter 3, the problem of counterfeit goods is described, and examples are provided to show how these goods have had a negative impact on both businesses and consumers. In Chapter 1, the debate about Canadian content in the media is noted, as well as the difficulty the CRTC has had in dealing with the regulation of internet broadcasting. These are just a few of the hundreds of examples that are included in the text.
- The impact of the aftermath of one of the most significant economic events of the past 80 years—the financial crisis of 2008—is examined in several different chapters of the text. For example, in Chapter 20, the ongoing sovereign debt crisis in Europe is examined, including the worldwide impact it is having on consumer expectations and on business activity. Concluding Case 19-2 describes the ups and downs of the world’s stock markets during the past decade, and explains how this volatility has created low returns and investment dilemmas for investors. The impact of the financial crisis on business firms is also analyzed in many other places in the text.

- Two new boxed insert series are included in this eighth edition. The first—called “Managing in Turbulent Times”—describes how Canadian business firms are coping in the often volatile and uncertain economic environment that has developed during the past few years. For example, the insert in Chapter 12 describes how global supply chains were disrupted as a result of the Japanese earthquake in 2011. The second new boxed series—called “E-business and Social Media Solutions”—describes how rapidly changing technology has provided business firms with many new ways to connect with customers, and how new technologies have given customers a level of control over businesses that they did not previously have. For example, the insert in Chapter 13 describes how social media communication can help or hurt a company’s reputation with customers.
- Two other boxed insert series that appeared in the seventh edition—“The Greening of Business” and “Entrepreneurship and New Ventures”—have been retained, but the material in all of these boxes is either new or updated. For example, in Chapter 3, a new “Greening of Business” box describes the difficulties consumers have in determining what product labels actually mean, and whether product claims about being environmentally friendly are really accurate. In Chapter 10, a new “Entrepreneurship and New Ventures” box describes how Netflix motivates employees by satisfying their needs.
- Approximately 90% of the opening cases, boxed inserts, end-of-chapter cases, and video cases are either new or updated. Much of this new material focuses on how the business environment is changing, and the challenges and opportunities that such change presents. For example, in Chapter 1, a new opening case describes the dramatic changes that are occurring in the mobile phone market, and how these changes have benefited some companies and presented major problems for others. In Chapter 11, Concluding Case 11-1 describes how certain changes that have occurred during the past few years (for example, the rise in the Canadian dollar) have caused problems in Canada’s manufacturing sector. In Chapter 16, Concluding Case 16-1 describes how changes in requirements about information sharing regarding homes that are available for sale have shaken up the real estate industry.
- Two new video cases are included at the end of each of the five major sections of the text.
- Five comprehensive case are included in Appendix C, all of which are new to this edition. These cases are more detailed than the end-of-chapter cases, and they provide students with more extensive information to consider as they analyze the case material and make recommendations about how to resolve the problems presented in the cases.

## Major Themes

Six major themes are evident in this new edition: (1) change, (2) business in a global context, (3) ethics and social responsibility, (4) small business, (5) information technology, and (6) the quality imperative. Students need to understand these themes since their careers in business will be significantly affected by them.

### The Theme of Change

The dramatic changes that have been occurring in business practice during the past decade continue apace, and these changes have been complicated by the uncertain and volatile business environment that has developed during the past few years. The development of new business processes, new products, and new services all make the

study of change in business exciting and necessary. New ways of doing things are replacing traditional business practices, usually with surprising speed and often with better competitive results. As authors, we have tried to communicate the theme of change by describing how real-world business firms cope with planned and unplanned events that test the mettle of managers. The boxed insert series entitled “Managing in Turbulent Times” focuses on the issue of how managers deal with change.

## **The Globalization of Business**

The globalization of business is one of the dominant challenges of the twenty-first century. To demonstrate the salience of this challenge, we’ve included many examples and cases that describe the experiences of Canadian companies in the global marketplace. We also describe how global companies have impacted the domestic Canadian market. In addition to these examples—which are found throughout the text—we devote an entire chapter to international business (Chapter 5, The Global Context of Business). We also examine the role of the traditional global economic powers as well as the emerging markets. A key spotlight is placed on the BRICS nations: Brazil, Russia, India, China and South Africa.

## **The Role of Ethics and Social Responsibility**

During the past decade, the topics of business ethics and social responsibility have generated a sharply increased level of discussion and debate as a result of the often questionable behaviour of managers at companies like Livent, News Corp., and Barclay’s Bank. In spite of the highly publicized misbehaviour of executives early in the twenty-first century, new cases have appeared with disturbing regularity. We therefore devote an entire chapter to the discussion of business ethics and social responsibility issues (Chapter 3, Conducting Business Ethically and Responsibly). Ethical issues are also raised in many other chapters of the text, and a team ethics exercise is found at the end of each chapter.

## **The Significance of Small Business**

College and university graduates will develop careers in both large and small businesses. We have therefore provided coverage of both large and small companies throughout the text. For those students who are interested in a career in small business, we discuss the implications of various ideas. As well, a major section in Chapter 4 (Understanding Entrepreneurship, Small Business, and New Venture Creation) is devoted to small business and new business start-ups. The boxed series entitled “Entrepreneurship and New Ventures” gives additional information about small business activity in Canada.

## **Rapid Changes in Information Technology**

In our information-based society, the people and organizations that learn how to obtain and use information will be the ones that succeed. The explosive growth and change in these systems is recognized as we provide a complete chapter dealing with the management of information (Chapter 13, Managing Information Systems and Communication Technology). The boxed insert series called “E-business and Social Media Solutions” also focuses on the impact of information technology on businesses and their employees.

## **The Quality Imperative**

Because quality and productivity have become the keys to competitive success for companies in the global marketplace, we devote a full chapter to coverage of these two important topics (Chapter 12, Increasing Productivity and Quality).



# Major Features of the Text

The text contains the following features to stimulate student interest in, and understanding of, the material that is presented about business.

## Part Opener

At the beginning of each of the five major parts of the book is a brief outline introducing the material that will be discussed in that part. These outlines give students a glimpse of the “big picture” as they start reading about a new area of the business world.

## Chapter Materials

Each chapter contains several features that are designed to increase student interest in, and understanding of, the material being presented. These features are as follows:

**Chapter learning objectives.** A list of numbered learning objectives is presented at the beginning of each chapter. These objectives—which guide students in determining what is important in each chapter—are also referenced in the margins opposite the relevant content in the chapter.

**Chapter opening case.** Each chapter begins with a description of a situation that is faced by a real Canadian or international company. The matter of the opening case is relevant to the material presented in the chapter, and therefore helps students bridge the gap between theory and practice.

**Boxed inserts.** The text contains four series of boxed inserts that are positioned at strategic points in the chapters. The first series—which is brand-new to this edition—is entitled “E-business and Social Media Solutions.” It describes how rapidly changing technology has provided business firms with many new ways to connect with customers, and how new technologies have given customers a level of control over businesses that they did not previously have. The second series—also brand-new to this edition—is entitled “Managing in Turbulent Times.” These inserts describe how businesses in Canada and elsewhere are trying to cope with the volatility and uncertainty that exists in the aftermath of the financial crisis of 2008. The third series—entitled “Entrepreneurship and New Ventures”—provides new, real-life examples of entrepreneurs who saw an opportunity to provide a new product or

### Part I Introducing the Contemporary Business World

**Part I**

In the Opening Cases in Chapters 1 to 5, you will read about five interesting situations:

- (1) rapid changes in the mobile phone market, (2) competitive among video content providers, (3) the unethical behaviour of some business managers, (4) the activities of internet entrepreneurs, and (5) the global challenge of a Canadian bank. We discuss these situations and why many of them are described in this text have a common theme—there are all concerned with the key elements of business as well as the interconnected and complexity of business activity. Each case tells a part of the story of a contemporary business world.

**Part One, Introducing the Contemporary Business World**, provides a general overview of business today, including its economic roots, the environment in which it operates, the ethical problems and opportunities facing business firms, the importance of entrepreneurship, the various forms of ownership available to business firms, and the globalization of business.

  - We begin in **Chapter 1, Understanding the Canadian Business System**, by examining the role of business in the economy of Canada and other market economies. We also present a brief history of business in Canada.
  - Next, in **Chapter 2, Connecting Business Ethics and Responsibility**, we look at individual ethics and corporate social responsibility and how these affect the lives of customers, employees, and investors.
  - Then in **Chapter 3, Understanding the Environments of Business**, we examine the external environments that influence business activity. These include the economic, technological, socio-cultural, political, legal, and general business environments.
  - Finally, in **Chapter 5, Understanding International Business**, we look at why countries engage in international trade, how companies operate to operate internationally, the development of free trade agreements, and factors that help or hinder international trade.

### 02 Understanding the Environments of Business

**LEARNING OBJECTIVES**

After reading this chapter, you should be able to:

- 1 Explain the concepts of organizational structure and the organizational environment.
- 2 Explain the importance of the economic environment to business and describe the factors used to evaluate the performance of an economic system.
- 3 Describe the technological environment and its role in business.
- 4 Describe the political/legal environment and its role in business.
- 5 Identify emerging challenges and opportunities in the business environment.
- 6 Understand current trends in the reworking of corporate boundaries.

**Video Content Providers Must Evolve or Perish: Netflix and Beyond**

Netflix, Canadian comedian and actor Kevin Kuhlman, and his wife, actress and comedian Sherry Cola, have been making waves in the comedy world. In 2011, Kuhlman and Cola launched their own comedy troupe, *The Kuhlman-Colas*. The troupe has since become a regular on the *Comedy Network* and has even performed at the *Just for Laughs* festival. Kuhlman and Cola are also the co-creators of the comedy series *The Kuhlman-Colas* on the *Comedy Network*. The series has been a success, and Kuhlman and Cola have been nominated for several awards. In 2012, Kuhlman and Cola were named *Comedy Network*’s *Comedian of the Year*. They are also the co-creators of the comedy series *The Kuhlman-Colas* on the *Comedy Network*. The series has been a success, and Kuhlman and Cola have been nominated for several awards. In 2012, Kuhlman and Cola were named *Comedy Network*’s *Comedian of the Year*.

**Competitive Forces**

Netflix had become a major force in the video-on-demand market. It was competing with other major players like Amazon, Hulu, and YouTube. Netflix was also competing with traditional television networks. Netflix was also competing with other video-on-demand services like Amazon, Hulu, and YouTube. Netflix was also competing with traditional television networks. Netflix was also competing with other video-on-demand services like Amazon, Hulu, and YouTube.

**HOW WILL THIS HELP ME?**

By understanding the material in this chapter, you’ll be able to:

- (1) understand the role of business in the economy of Canada and other market economies.
- (2) understand the external environments that influence business activity.
- (3) understand the economic, technological, socio-cultural, political, legal, and general business environments.
- (4) understand the importance of entrepreneurship and the various forms of ownership available to business firms.
- (5) understand the globalization of business.

### E-BUSINESS + SOCIAL MEDIA SOLUTIONS

**New Age Entrepreneurs: The Rise of Twitter**

Entrepreneurs have effective new promotion tools thanks to social media sites. But what about the entrepreneurs who created these new information highways? Bill Stone, Jack Dorsey, and Evan Williams created and launched Twitter, the micro-blogging site, in 2006. Before Twitter, there was a blogging expert who had written her books on the subject. Jack Dorsey is the inventor of the software side of the business and Evan Williams is an entrepreneur who built internet start-ups like Pyra Labs, a social networking site, and a site of entrepreneurial news, and the one you know best as “Dribbble.” Twitter is an “instantaneous” social media site that allows you to post short messages of up to 140 characters at a time. As the website states, it allows you to share information on the issues that matter most to you. Twitter is heavily promoting business applications compatible with users in a section called Twitter 140 for Business. For example, Best Buy has set up a “read from here” link for its customers to see how they can use Twitter to promote their business. Twitter is also heavily promoting business applications compatible with users in a section called Twitter 140 for Business. For example, Best Buy has set up a “read from here” link for its customers to see how they can use Twitter to promote their business. Twitter is also heavily promoting business applications compatible with users in a section called Twitter 140 for Business.

### MANAGING IN TURBULENT TIMES

**Saskatchewan’s PotashCorp**

In August 2010, Australian-based BHP-Billiton made a \$38-billion takeover bid for PotashCorp of Saskatchewan (PCS). BHP-Billiton’s offer was 100% cash and was valued at \$38 billion. The PCS board of directors was initially skeptical of the offer, but they eventually agreed to the takeover. The takeover was completed in October 2010. The takeover was a major event in the history of Saskatchewan. The takeover was a major event in the history of Saskatchewan. The takeover was a major event in the history of Saskatchewan.

**Strategic points in the chapters.** The first series—which is brand-new to this edition—is entitled “E-business and Social Media Solutions.” It describes how rapidly changing technology has provided business firms with many new ways to connect with customers, and how new technologies have given customers a level of control over businesses that they did not previously have. The second series—also brand-new to this edition—is entitled “Managing in Turbulent Times.” These inserts describe how businesses in Canada and elsewhere are trying to cope with the volatility and uncertainty that exists in the aftermath of the financial crisis of 2008. The third series—entitled “Entrepreneurship and New Ventures”—provides new, real-life examples of entrepreneurs who saw an opportunity to provide a new product or

service in the marketplace, and the activities they carried out in order to be successful. The fourth series—entitled “The Greening of Business”—analyzes the steps that businesses are taking to be more environmentally friendly. These inserts identify both the opportunities and challenges that businesses encounter as they try to be socially responsible.

**Examples.** In addition to the boxed inserts, each chapter contains numerous examples of how businesses operate so that students can gain a better understanding of the dynamics of business practice in both Canada and elsewhere. These examples—which range in length from one sentence to several paragraphs—help students understand concepts that are discussed in the text.

**Figures and tables.** The latest available data appear in tables and figures throughout the text.

### End-of-Chapter Materials

Several important pedagogical features are found at the end of each chapter. These are designed to help students better understand the contents of the chapter.

**Summary of learning objectives.** The material in each chapter is concisely summarized, using the learning objectives as the organizing scheme. This helps students understand the main points that were presented in the chapter.

**Key terms.** In each chapter, the key terms that students should know are highlighted in the text, defined in the margin, and listed alphabetically at the end of the chapter (with page references).

**Questions and exercises.** There are two types of questions here: *analysis questions* (which require students to think beyond simple factual recall and apply the concepts they have read about), and *application exercises* (which ask students to apply what they have learned).

**Building your business skills exercise.** These exercises—which are designed to help students to increase their understanding of how business firms actually operate—require students to engage in practical activities such as interviewing managers about concepts and issues that are discussed in the chapter.

**Building your business skills exercise.** This feature asks students to examine some specific aspect of business in detail.

**ENTREPRENEURSHIP AND NEW VENTURES**

**AEH Healthy Food**

“Do lower costs make chocolate milk?” The question asks how cost savings affect the pricing of chocolate milk. This is a good question because it is not just about the price of chocolate milk but also about the quality of the product. The article discusses how the cost of chocolate milk has increased over time due to rising costs of ingredients and packaging. It also discusses how the cost of chocolate milk has increased due to the need for more environmentally friendly packaging. The article concludes that the cost of chocolate milk has increased significantly over time, and that this has led to a decrease in the quantity of chocolate milk sold.

**THE GREENING OF BUSINESS**

**What’s the Latest on the Hydrogen Fuel Cell?**

In the 1990s, Vancouver-based Ballard Power Systems announced that the hydrogen fuel cell—which generates hydrogen with oxygen to produce pollution-free electricity—would soon be powering automobiles. Both Ballard and Ford said they were going to use fuel-cell cars on the market by 2005, but that didn’t happen. Now there’s a new date: 2015.

Why the fuel cell—often called a fuel cell—hasn’t taken off is still not widely available. There are many reasons, but the biggest problem has been the high cost of the fuel cell. Ford, for example, has spent \$1 billion on research and development. Ballard estimates that it will cost \$2,000 to build a fuel cell car if it is planning to introduce it in 2015.

Second, as of 2012, there were virtually no hydrogen refueling stations in North America. Through three years of a partnership with several other government and private organizations, the goal is to have 200 to 250 hydrogen refueling stations in Canada by 2015.

Development of a commercially viable fuel cell has been challenging, but there have been some promising developments during the past couple of years.

- **Daimler says it will first test fuel cells in 2012** (they are scheduled to be used on Daimler’s Mercedes-Benz C-Class plug-in hybrid electric vehicle, which will be equipped with a fuel cell to extend its range).
- **General Motors has built more than 100 fuel cell cars** (the cars are used for fleet testing).

**Critical Thinking Questions**

1. How can the cost of the fuel cell be reduced?
2. How can the infrastructure be improved?
3. How can the government and private organizations be encouraged to invest in the technology?

**Chapter 4 Mapping the Business Enterprise**

**MyBizLab**

Customize your learning. MyBizLab provides you with interactive study and practice tools designed to help you understand the concepts in this chapter better. The MyBizLab tools include a glossary of key terms, a list of key terms, and a list of key terms. MyBizLab also provides you with a list of key terms to study.

**SUMMARY OF LEARNING OBJECTIVES**

1. Describe the five basic management functions: planning, organizing, leading, and controlling. Explain the importance of each function and how they are interrelated.
2. Identify the types of managers by level and area. Managers can be differentiated in two ways: by level and by area. By level, managers are categorized into top-level, middle-level, and first-level managers. By area, managers are categorized into functional, divisional, and generalist managers.
3. Explain the importance of setting goals and developing strategies. Goals—the predetermined targets of an organization—can be short-term, intermediate, and long-term. They provide direction for managers, they help managers coordinate their activities, and they help managers evaluate their performance. Strategies are the overall plans that guide an organization in achieving its long-term goals.
4. Explain the importance of setting goals and developing strategies. Goals—the predetermined targets of an organization—can be short-term, intermediate, and long-term. They provide direction for managers, they help managers coordinate their activities, and they help managers evaluate their performance. Strategies are the overall plans that guide an organization in achieving its long-term goals.

**288 PART TWO The Business Enterprise**

**KEY TERMS**

business-level competitive strategy (p. 199)  
concentration strategy (p. 199)  
horizontal integration (p. 199)  
vertical integration (p. 199)  
diversification strategy (p. 202)  
conglomerate (p. 204)  
corporate culture (p. 204)  
investment-level strategy (p. 199)  
core leadership (p. 202)  
business goals (p. 203)  
decision making (p. 199)  
decision-making process (p. 203)  
delegation (p. 203)  
efficiency (p. 182)  
allocation of management (p. 199)  
environmental analysis (p. 196)  
line-of-business strategy (p. 187)  
focus strategy (p. 187)

**QUESTIONS FOR ANALYSIS**

1. How are the four functions of management related to the five levels of management? Use the example of a manager in your organization to illustrate the relationship between the functions of management and the levels of management.
2. What is the relationship between the functions of management and the levels of management? Use the example of a manager in your organization to illustrate the relationship between the functions of management and the levels of management.
3. Identify managers by level and area. How do you think the organization you work for uses these categories to classify its managers?
4. In what kind of company would the manager of a department be most responsible for setting goals and developing strategies? Use the example of a manager in your organization to illustrate the relationship between the functions of management and the levels of management.

**APPLICATION EXERCISES**

1. Interview a manager at any level of a local company. Explain what the manager’s job entails and how it is related to the organization’s goals. Ask the manager to describe the most important challenges he or she faces in the job. How do you think the manager’s job is related to the organization’s goals?
2. Select any group of which you are a member (your organization, your family, or a club or organization). List the group’s goals and objectives. How do you think the group’s goals and objectives are related to the organization’s goals? How do you think the group’s goals and objectives are related to the organization’s goals?

**Chapter 4 Understanding Internetworks, Data Bases, and New Business Models**

**Using the product or service you described in Question 4, analyze the extent to which there is a digital “fit” among the various elements in the environment to remain private? Why might it change? (Use “yes” or “no” for your answer.)**

**APPLICATION EXERCISES**

1. Think of an instance of mobile applications on the various mobile platforms (you probably use some of these on a daily basis). Identify any idea for a new application that can solve a customer need in a convenient manner or can improve quality.
2. Identify three trends—social, technical, or something else—and describe at least five ideas for capitalizing on one of them.
3. Find a newspaper or magazine article that describes someone who is an entrepreneur. Use the information provided to explain what makes this person an entrepreneur. List the entrepreneur’s name, the business, and the entrepreneur’s background. What specific factors do you think have led to the entrepreneur’s success? How do you think the entrepreneur’s success is related to the entrepreneur’s background?

**BUILDING YOUR BUSINESS SKILLS**

**Working the Internet**

**The Purpose of the Assignment**

To encourage students to identify opportunities and problems in the small-business digital business on the Internet.

**The Situation**

Suppose you and your partner own a gift basket store, and you are looking for new ways to expand your business. You have been thinking about using the Internet to reach more customers. You have been thinking about using the Internet to reach more customers. You have been thinking about using the Internet to reach more customers.

**Assignment**

1. You are to research the Internet to find out how businesses are using the Internet to reach more customers. You are to research the Internet to find out how businesses are using the Internet to reach more customers. You are to research the Internet to find out how businesses are using the Internet to reach more customers.

**QUESTIONS FOR DISCUSSION**

1. Do you think your business would be successful on the Internet? Why or why not?
2. Based on your analysis, how will internet expansion affect your current business practices? What specific changes do you think you will need to make to succeed on the Internet?
3. Do you think that creating a virtual storefront will be harder or easier than doing business in your local community? Explain your answer.

**EXERCISING YOUR ETHICS: TEAM EXERCISE**

**Public or Private? That Is the Question**

**The Situation**

The “Share” Corporation is a very successful private company with a solid and growing product line, stable financial condition, and a loyal customer base. However, in the past few months, there has been a growing rift among the board of directors that has caused considerable differences of opinion as to the future direction of the firm.

**The Dilemma**

Some board members believe the firm should “go public” with a stock offering. Their main board member opposes a large block of corporate stock, which would make a considerable amount of money if the company went public.

Other board members want to maintain the status quo as a private corporation. The biggest advantage of this

**Chapter 10 Integrating the Canadian Business System**

**Questions for Discussion**

1. Discuss the role that various stakeholders other than the firm play in the business system. How do you think the business system is related to the business system? How do you think the business system is related to the business system?

**EXERCISING YOUR ETHICS: TEAM EXERCISE**

**Making the Right Decision**

**The Situation**

Head’s a large hotel in a beautiful city. The hotel has been operating for 100 years and has a long history. The hotel has been operating for 100 years and has a long history. The hotel has been operating for 100 years and has a long history.

**The Ethical Issue**

Because Head’s is a historic property, it must maintain its historic quality standards in its hotel buildings. The hotel has been operating for 100 years and has a long history. The hotel has been operating for 100 years and has a long history.

**Questions for Discussion**

1. How do you think the hotel’s quality standards are related to the hotel’s quality standards? How do you think the hotel’s quality standards are related to the hotel’s quality standards?

**EXERCISING YOUR ETHICS: TEAM EXERCISE**

**Making the Right Decision**

**The Situation**

The hotel can raise its rates by approximately 15 percent without affecting its monthly revenues. It can also start charging for certain things that have been provided for free, such as parking and morning coffee. The hotel members of the board are divided on whether to raise the rates and to start charging for these services.

**The Ethical Issue**

Because the hotel is a historic property, it must maintain its historic quality standards in its hotel buildings. The hotel has been operating for 100 years and has a long history. The hotel has been operating for 100 years and has a long history.

**Questions for Discussion**

1. How do you think the hotel’s quality standards are related to the hotel’s quality standards? How do you think the hotel’s quality standards are related to the hotel’s quality standards?

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**CONCLUDING CASE 3-1**

**The Problem of Consumer Skepticism**

...to recent years, a consumer seems to be developing that it is important to be sure that the information they receive is accurate. This "consumer skepticism" has resulted in many companies to publish what they are doing to be more socially responsible. One such company is the new energy company, the 2010 Global Energy Summit. ...



You might think that any effort by a company to be more socially responsible would be viewed positively by those who are concerned about protecting the environment. But that's not necessarily the case. ...

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**CONCLUDING CASE 3-2**

**The Debate over Global Warming Is Heating Up**

...and it is a very real one. There is no doubt that the world is warming, and the science is clear. ...



The debate has heated up (and intensified) for a variety of reasons. First, recent events from the climate summit in London in 2009 ...

The exercise may ask students to work individually or in a group to gather data about an interesting business issue, and then develop a written report or a class presentation based on the information that was gathered. Each exercise begins with a list of goals, a description of the situation, a step-by-step methodology for proceeding, and follow-up questions to help students focus their responses to the challenge.

**Exercising your ethics: team exercise.** A team ethics exercise describes a situation that contains an ethical dilemma. Students are then asked several questions that focus on how to approach and resolve the dilemma. In the exercise,

students take on the role of employee, owner, customer, or investor and examine a chapter-related business ethics dilemma through the perspective of that role. By working together as a team, students learn how to co-operate with each other, see an ethical dilemma from various points of view, and decide what outcome is ultimately best in each situation.

**Concluding cases.** Each chapter concludes with two case studies that focus on real Canadian or international companies. These cases are designed to help students apply the chapter material to a real company that is currently in the news. At the end of each case, several questions guide students in their analysis.

**End-of-Part Material**

**Video cases.** Two new video cases are presented at the end of each of the five major parts of the text. The instructor can show the video in class and then either conduct a class discussion using the questions at the end of the written case summary as a guide, or ask students to complete a written assignment that requires answering the questions at the end of the case. This approach to teaching adds a major new dynamic to classes because students will be able to relate text material to actual Canadian business situations. These video cases are also available on the Companion Website for *Business*, Eighth Canadian edition.

Chapter 1: Understanding the Canadian Business System 170

**VIDEO CASE 1-1**  
Posilight

**THE COMPANY**

Energy efficiency and cost-saving solutions are increasingly important in today's economy. It is often that both are taken together in one product and one solution. Posilight, a lighting product for property and energy owners, provides both cost-saving and energy-efficient solutions to interior, exterior and home owners. ...

**THE OUTCOME**

Posilight offers two other options to those that do not wish to invest in a new product. ...

**THE PITCH**

In his appearance on *Dragon's Den*, Simonne asked for \$75,000 in return for giving Dragon 10 percent ownership of his company. ...

**THE DRAGON'S POINT OF VIEW**

In his pitch, the Dragon seemed concerned in Simonne's proposal. ...

Chapter 17: Pricing and Distributing Goods and Services 571

**CRAFTING A BUSINESS PLAN**  
Part 4: Principles of Marketing

**Goal of the Exercise**

For your business plan to identify you've described the features that will attract your business, and you've examined your competitors. ...

**EXERCISE BACKGROUND**

**Part 4 of the Business Plan**

Part 4 of the business plan describes what your business will do. ...

**Step 1**

Open the *Business Plan* for the year you have been working on.

**Step 2**

For the purpose of this assignment, you will answer the following questions:

Website for *Business*, Eighth Canadian edition.

**Crafting a Business Plan.** The business plan project is tailor-made to match and reinforce book content. It is *software-independent* and provides students with an easy-to-understand template that they work from as they create their business plans. The business plan project is divided into logical sections, and each part (e.g., marketing, production, finance, etc.) is located at the end of the section where that material is covered. With five parts in all, students can gradually apply the concepts they've learned in the chapters to their business plans throughout the course.

## Appendices

There are three appendices found at the end of the text.

**Appendix A—Business Law.** The material on business law includes key topics such as contracts, the concept of agency, warranties, and bankruptcy.

**Appendix B—Managing Your Personal Finances.** This feature has been overwhelmingly requested by students and instructors, and presents a down-to-earth, hands-on approach that will help students manage their personal finances. The practical information found in this feature includes a worksheet for determining net worth, insightful examples demonstrating the time value of money, a method for determining how much to invest now in order to build a future nest egg of a certain size, suggestions on how to manage credit card debt, guidelines for purchasing a house, and a personalized worksheet for setting financial goals. The information contained in this feature will be immensely useful to students.

**Appendix C—Supplementary Case Studies.** Five supplementary cases are presented for student consideration. These cases are longer than the end-of-chapter cases, and they raise several issues that are important for beginning business students to consider. These cases further build students' analytical skills and help them understand the complexities of the modern business world. Specific questions are provided at the end of each case for instructors who wish to direct student attention to certain problems. Other instructors may wish to use a more general approach that simply asks students to define the problem, develop alternatives, analyze the alternatives, and choose the best one.

## Supplementary Materials

MyBizLab ([www.mybizlab.com](http://www.mybizlab.com)) is an online grading, assessment, and study tool for faculty and students. It engages students and helps them focus on what they need to study. It can help students get a better grade because they are learning in an interactive and focused environment. MyBizLab delivers all classroom resources for instructors and students in one place. All resources are organized by learning objective so that lectures and studying can be customized more conveniently than ever before.

**MyBizLab**

### For Instructors

**Instructor's Resource Centre.** Instructor resources are password protected and available for download via <http://catalogue.pearsoned.ca>. For your convenience, these resources are also available online at [www.mybizlab.com](http://www.mybizlab.com) in the instructor area.

**MyTest.** MyTest from Pearson Canada is a powerful online assessment-generation program that helps instructors easily create and print quizzes, tests, and exams, as well as homework or practice handouts. Questions and tests can all be authored online, allowing instructors ultimate flexibility and the ability to efficiently manage assessments at any time, from anywhere. The testbank is also available in Word format as a Test Item File that can be downloaded from the Instructor's Resource Centre.

**Instructor's Resource Manual.** The Instructor's Resource Manual contains chapter synopses, detailed outlines, questions to ask students, in-class exercises, teaching tips, and suggestions on how to use the text and boxed material effectively. The manual also provides answers to the end-of-chapter questions and cases (including Questions for Analysis, Application Exercises, Building Your Business Skills, Exercising Your Ethics, Concluding Cases, and Video Cases).

**PowerPoint® Presentations.** PowerPoint Presentations offer an average of about 30 PowerPoint slides per chapter, outlining the key points in the text. The slides include lecture notes that provide page references to the text, summaries, and suggestions for student activities or related questions from the text.

**CBC Video Library.** The CBC Video Library for *Business*, Eighth Canadian Edition, includes 11 segments from CBC programs that accompany the video cases found at the end of each part in the text. These cases focus on Canadian companies and discuss business issues from a Canadian point of view. The cases can be viewed online at [www.pearsoned.ca/highered/vidocentral](http://www.pearsoned.ca/highered/vidocentral), and answers to the discussion questions are provided in the Instructor's Resource Manual. (Please contact your Pearson Canada sales representative for details.)

**Pearson Custom Publishing.** Pearson Custom Publishing can provide you and your students with texts, cases, and articles to enhance your course. Choose material from Darden, Ivey, Harvard Business School Publishing, NACRA, and Thunderbird to create your own custom casebook. Contact your Pearson Canada sales representative for details.

**Online Learning Solutions.** Pearson Canada supports instructors interested in using online course management systems. We provide text-related content in Blackboard/WebCT and Course Compass. To find out more about creating an online course using Pearson content in one of these platforms, contact your Pearson Canada sales representative.

**Your Pearson Canada Inc. Sales Representative.** Your Pearson sales rep is always available to ensure you have everything you need to teach a winning course. Armed with experience, training, and product knowledge, your Pearson rep will support your assessment and adoption of any of the products, services, and technology outlined here to ensure our offerings are tailored to suit your individual needs and the needs of your students. Whether it's getting instructions on assessment software or specific content files for your new online course, your Pearson sales representative is there to help. Ask your Pearson sales representative for details.

**Technology Specialists.** Pearson's Technology Specialists work with faculty and campus course designers to ensure that Pearson technology products, assessment tools, and online course materials are tailored to meet your specific needs. This highly qualified team is dedicated to helping schools take full advantage of a wide range of educational resources by assisting in the integration of a variety of instructional materials and media formats. Your local Pearson Canada sales representative can provide you with more details on this service program.

**CourseSmart.** CourseSmart is a new way for instructors and students to access textbooks online anytime from anywhere. With thousands of titles across hundreds of courses, CourseSmart helps instructors choose the best textbook for their class and give their students a new option for buying the assigned textbook as a lower cost e-textbook. For more information, visit [www.coursesmart.com](http://www.coursesmart.com).

## For Students



MyBizLab ([www.mybizlab.com](http://www.mybizlab.com)) is an online grading, assessment, and study tool for both faculty and students. It generates a personalized study plan that focuses students on what they, individually, need to study. It engages students through an interactive and focused environment. All resources are organized by learning objective so that studying can be customized more conveniently than ever before.

**Crafting a Business Plan.** A completely rewritten business plan project, tailor-made to match and reinforce book content, appears at the end of each major section of the book. This new business plan project is *software-independent* and provides students with an easy-to-understand template that they work from as they create their business plans.

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*Frederick A. Starke  
George Dracopoulos  
Melanie D. Lang*

# About the Authors

**Ronald J. Ebert** is professor emeritus at the University of Missouri–Columbia where he lectures in the management department and serves as adviser to students and student organizations. Dr. Ebert draws upon more than 30 years of teaching experience at such schools as Sinclair College, University of Washington, University of Missouri, Lucian Blaga University of Sibiu (Romania), and Consortium International University (Italy). His consulting alliances include such firms as Mobay Corporation, Kraft Foods, Oscar Mayer, Atlas Powder, and John Deere. He has designed and conducted management development programs for such diverse clients as the American Public Power Association, the United States Savings and Loan League, and the Central Missouri Manufacturing Training Consortium.

His experience as a practitioner has fostered an advocacy for integrating concepts with best business practices in business education. The five business books he has written have been translated into Spanish, Chinese, Malaysian, and Romanian. Dr. Ebert has served as the editor of the *Journal of Operations Management*. He is a past president and fellow of the Decision Sciences Institute. He has served as consultant and external evaluator for *Quantitative Reasoning for Business Studies*, an introduction-to-business project sponsored by the National Science Foundation.

**Ricky W. Griffin** is Distinguished Professor of Management and holds the Blocker Chair in Business in the Mays School of Business at Texas A&M University. Dr. Griffin currently serves as executive associate dean. He previously served as head of the Department of Management and as director of the Center for Human Resource Management at Texas A&M. His research interests include workplace aggression and violence, executive skills and decision making, and workplace culture. Dr. Griffin's research has been published in such journals as *Academy of Management Review*, *Academy of Management Journal*, *Administrative Science Quarterly*, and *Journal of Management*. He has also served as editor of *Journal of Management*. Dr. Griffin has consulted with such organizations as Texas Instruments, Tenneco, Amoco, Compaq Computer, and Continental Airlines.

Dr. Griffin has served the Academy of Management as chair of the organizational behaviour division. He also has served as president of the southwest division of the Academy of Management and on the board of directors of the Southern Management Association. He is a fellow of both the Academy of Management and the Southern Management Association. He is also the author of several successful textbooks, each of which is a market leader. In addition, the books are widely used in dozens of countries and have been translated into numerous foreign languages, including Spanish, Polish, Malaysian, and Russian.

**Frederick A. Starke** is professor emeritus of Organizational Behaviour in the Asper School of Business at the University of Manitoba. He began his career at the University of Manitoba in 1968 and has taught courses in organizational behaviour, organization theory, decision making, and marketing. He has served in several administrative positions, including head of the Department of Business Administration from 1982–87 and from 1989–94, and as associate dean from 1996–2005.

Dr. Starke earned his BA and MBA from Southern Illinois University and his PhD in organizational behaviour from Ohio State University. He has published research articles in such scholarly journals as the *Administrative Science Quarterly*, the *Journal of Applied Psychology*, the *Academy of Management Journal*, the *Journal of Management Studies*, and the *Review of Religious Research*. He has also written articles for professional journals, such as the *Journal of Systems Management*, *Information Executive*, and the *Canadian Journal of Nursing Administration*.

Dr. Starke writes textbooks that are used by university and community college students in business programs across Canada. These titles include *Organizational Behaviour*, *Business Essentials*, *Management*, and *Business*. Dr. Starke also presents seminars on the topics of decision making and goal setting to practising managers in both the public and private sectors.

**George Dracopoulos** is a member of the business administration department at Vanier College. In the past, he served as chairman of the department but is now devoting considerable energy to his role as International Business Exchange Coordinator. In recent years, George has created links and built bridges with universities and businesses throughout France (and now Belgium). To date, hundreds of students have benefitted from these initiatives. George was awarded the Vanier VIP award for his dedication and devotion to the community in 2012. He is a co-organizer of the national BDC/Vanier Marketing Case Competition. George also serves as a part-time lecturer at McGill University, teaching traditional courses and building and delivering online and distance education classes. He earned his MBA at McGill, as well as a graduate diploma in education and a graduate degree in applied management. He earned his BA at Concordia University. Mr. Dracopoulos has taught a broad range of business courses and is an advocate of experiential learning. His primary interests are in the fields of marketing and management.

Outside his teaching career, Mr. Dracopoulos has worked in marketing and sales positions. He has been invited to speak and/or provide keynote addresses at events across North America. In addition to this text, he works on other publishing projects providing web content and multimedia material. While completing his

university education, he spent a semester abroad studying management globalization issues in Europe. He has also spent a considerable amount of time coaching high-level sports. Recent Pearson publications include *Business in Action*, In-Class Edition, Second Canadian Edition (2009) (co-authored with Courtland L. Bovée and John V. Thill) and *Business Essentials*, Sixth Edition, (2012) (co-authored with Ronald J. Ebert, Ricky W. Griffin, and Fred Starke).

**Melanie D. Lang** is assistant professor at the University of Guelph and is currently director of the Centre for Business and Social Entrepreneurship (CBaSE). As director, Ms. Lang oversees the experiential learning opportunities of students working with local businesses and community-based organizations. CBaSE promotes student engagement and social responsibility while encouraging entrepreneurship in its broadest sense: the translation of ideas into action for the betterment of society.

Ms. Lang began her career at the University of Guelph in 2004 and has taught courses in marketing, consumer behaviour, and product development. One of the areas of discipline that Ms. Lang teaches includes an interdisciplinary product/business development course involving students from various academic backgrounds who work in teams to develop real products and accompanying business plans. Her research interests include the acceptance of new and emerging agri-food products into culturally dynamic consumer markets, enhancing enterprise education practices, as well as evaluating innovative teaching and learning models.

Ms. Lang earned her BComm and MSc from the University of Guelph in Marketing and Consumer Studies and has contributed to textbooks that are used by business students in commerce programs across Canada.

## From the Authors

### Ron Ebert, Ricky Griffin, Fred Starke, George Dracopoulos, and Melanie Lang

Businesses today face constant change—change in their competitive landscape, change in their workforce, change in government regulations, change in the economy, change in technology, change in... well, you get the idea. As we began planning this revision, we too recognized the need for change—changing demands from instructors, changing needs and preferences of students, and changing views on what material to cover in this course and how to cover it. These have all affected how we planned and revised the book.

The business world provided us with dozens of new examples, new challenges (particularly the aftermath of the financial crisis of 2008-09), new success stories, and new perspectives on what businesses must do to remain competitive. A new dedication to relevance guided our work from beginning to end. For example, we know that some business students will go to work for big companies, while others will work for small firms. Some will start

their own business, and others may join a family business. We have therefore tried to make the book as relevant and useful as possible to all students, regardless of their personal and career goals and objectives.

We have incorporated many new features in this eighth Canadian edition of *Business* (see the Preface for a description of these new features). We also carefully reviewed the existing book line by line. New material was added, and older examples were updated or replaced with newer ones. We worked extra hard to make our writing as clear and as crisp as possible. We think that these changes will help make the material even more alive and personal for you.

We believe that we have taken this book to a new, higher level of excellence. Its content is stronger, its learning framework is better, its design is more reader-friendly, and its support materials are the best on the market. We hope that you enjoy reading and learning from this book as much as we enjoyed creating it. And who knows? Perhaps one day we can tell your story of business success to other students.



# Introducing the Contemporary



In the Opening Cases in Chapters 1 to 5, you will read about five interesting situations: (1) rapid changes in the mobile phone market, (2) competition among video content providers, (3) the unethical behaviour of some business managers, (4) the activities of internet entrepreneurs, and (5) the global strategy of a Canadian bank. All of these situations and many more that are described in this text have a common thread—they all demonstrate the key elements of business as well as the excitement and complexity of business activity. Each case tells a part of the story of our contemporary business world.

**Part One, Introducing the Contemporary Business World,** provides a general overview of business today, including its economic roots, the environment in which it operates, the ethical problems and opportunities facing business firms, the importance of entrepreneurship, the various forms of ownership available to business firms, and the globalization of business.

# Business World



- We begin in **Chapter 1, Understanding the Canadian Business System**, by examining the role of business in the economy of Canada and other market economies. We also present a brief history of business in Canada.
- Then in **Chapter 2, Understanding the Environments of Business**, we examine the external environments that influence business activity. These include the economic, technological, socio-cultural, political-legal, and general business environments.
- Next, in **Chapter 3, Conducting Business Ethically and Responsibly**, we look at individual ethics and corporate social responsibility and how these affect the firm's customers, employees, and investors.
- In **Chapter 4, Understanding Entrepreneurship, Small Business, and New Venture Creation**, we examine the important concepts of entrepreneurship and small business, and the various forms of business ownership that have evolved to facilitate business activity.
- Finally, in **Chapter 5, Understanding International Business**, we look at why countries engage in international trade, how companies organize to operate internationally, the development of free trade agreements, and factors that help or hinder international trade.

# Understanding the Canadian Business System

## LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- 1 Define the nature of Canadian *business* and identify its main goals.
- 2 Describe different types of *global economic systems* according to the means by which they control the *factors of production* through *input and output markets*.
- 3 Show how *demand* and *supply* affect resource distribution in Canada.
- 4 Identify the elements of *private enterprise* and explain the various *degrees of competition* in the Canadian economic system.
- 5 Trace the *history of business* in Canada.

## The Mobile Phone Market: It's the Wild West

**NOT** too many years ago, no one had heard of Angry Birds, BBM, or mobile phones that could take pictures, access email, browse the web, and play music. But now consumers depend on their mobile phones for all these things, and these devices have become immensely popular. Annual sales of smartphones are expected to hit one billion units by 2015, so the market potential is huge. But competition is intense, patent infringement lawsuits are common, and shifting fortunes are evident among the companies that are competing for the consumer's dollar.

New product introductions are occurring at a rapid pace. The most publicized new product in the past few years has been Apple's iPhone, which is a strong competitor to the BlackBerry from Canada's Research In Motion (RIM). But Samsung has suddenly become a big player in this market with the introduction of its Galaxy smartphone, which presents strong competition for both Apple and RIM. Another new product is Motorola's Droid phone, which was launched by Verizon, the largest U.S. wireless

carrier (and RIM's biggest customer). A fourth entry comes from Google, which developed a touch screen mobile phone that uses Google's own Android operating system. This product may also cause problems for Apple's iPhone.

Patent infringement lawsuits abound in this rapidly changing industry, and RIM and other firms have both sued and been sued. For example, Klausner Technologies filed suit against RIM for infringing one of its visual voice mail patents. In a non-technology case, RIM was sued for patent infringement by the Canadian Bureau of Broadcast Management (BBM), a company that collects radio and TV statistics. BBM claims that it has rights to the BBM name and has used that name for decades. BBM also stands for BlackBerry Messenger, the instant messaging service that has 50 million users.

There are two industry trends that make it difficult to predict the future for any of the competitors in the smartphone industry. The first is the so-called "bring your own

device" trend, which means that companies are shifting the responsibility for having a phone onto employees. The second trend is "sandboxing," which means separating work functions from the rest of the smartphone for security reasons and allowing employees to use their own phones at work without losing access to other applications like games or social networking.

All of this uncertainty and rapid change has created problems for some companies. One of these companies is RIM, which introduced the now-famous BlackBerry in 1998. In the first quarter of 2010, RIM was one of the top five mobile phone companies in the world, but by the end of 2011 its fortunes had declined dramatically. In 2011, smartphones running on Google's Android software surpassed RIM as the king of the U.S. smartphone market. In October 2010, BlackBerry's market share was 35.8 percent, but by May 2011 it had dropped to just 9 percent. During that same period, Google's share jumped from 23.5 percent to 34.7 percent.



RIM's share price reflects its misfortunes, falling from \$70 per share in 2010 to less than \$10 per share in mid-2012. The late Steve Jobs (former CEO of Apple) said it would be hard for RIM to ever catch up because the leading software platforms (iOS and Android) are so popular. RIM has had problems getting its new products to the market on schedule (for example, its new BlackBerry 10 will not be available until 2013), and these delays have caused some analysts to predict that RIM will not survive.

What is happening to RIM has also happened to once-dominant Nokia. For many years, Nokia was the top producer of cellphones, but it

was overtaken by Apple in 2011 and Samsung in 2012. Together, Samsung and Apple control 55 percent of the global smartphone shipments. Nokia's biggest problem is the popularity in Europe of phones that are running on the Android platform. Android phones increased their market share from 8 percent to 30 percent in just one year. During that same period, the market share of Nokia's Symbian system dropped from 40 percent to 21 percent. In 2011, Nokia announced that it would drop its Symbian platform and use Microsoft's Windows Phone 7 software. In 2012, Nokia introduced the Lumia 900 smartphone in an attempt to re-establish

itself as an important player in the industry. But a software bug was found in the phone and in March 2012, Nokia said that its profits would be negatively affected by the problem.

It is difficult to predict exactly what will happen in the mobile phone industry or who will be the big winners. The only thing we can be sure of is that competition will remain fierce, new product introductions will continue at a dizzying pace, and consumers will eagerly anticipate "the next big thing." In March 2012, for example, Asian mobile phone company Huawei introduced its Ascend D smartphone, touting it as the world's fastest smartphone. ♦

## HOW WILL THIS HELP ME?

All businesses are subject to the influences of economic forces. But these economic forces also provide astute managers and entrepreneurs with opportunities for profits and growth. The ideas presented in this chapter will help you to understand (1) how

business *managers* deal with the challenges and opportunities resulting from economic forces, and (2) how *consumers* deal with the challenges and opportunities of price fluctuations.

## The Concept of Business and Profit

The opening case illustrates the dynamic and rapidly changing nature of modern business activity, and the opportunities and challenges that are evident. It also shows how business managers must pay attention to many different factors, including the actions of competitors, rapid technological change, new product development, corporate strategy, risk management, stock prices, and a host of other variables that you will read about in this book.

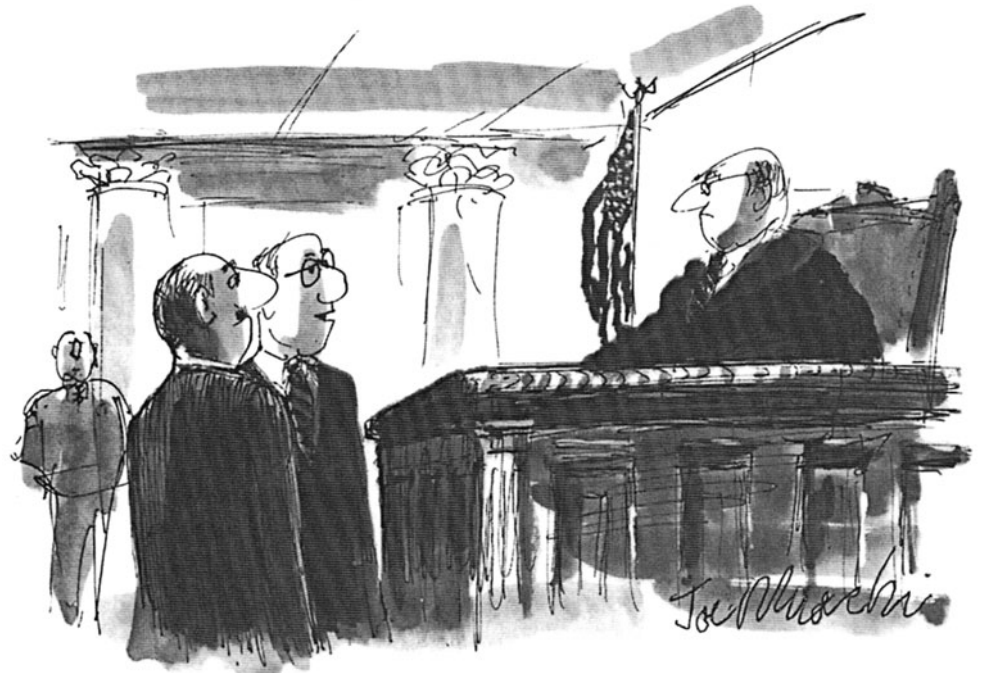
Let's begin by asking what you think of when you hear the word *business*. Large corporations like Shoppers Drug Mart and Walmart? Smaller companies like your local supermarket or favourite restaurant? Successful companies like CN and Apple? Less successful companies like Nortel Networks or Yellow Media? Actually, each of these firms is a **business**—an organization that produces or sells goods or services in an effort to make a profit. **Profit** is what remains after a business's expenses have been subtracted from its revenues. Profits reward the owners of businesses for taking the risks involved in investing their time and money. In 2011, the top three companies in terms of profits were all banks (the Royal Bank, \$5.2 billion in profits; the Toronto Dominion Bank, \$4.6 billion; and the Bank of Nova Scotia, \$4.2 billion).<sup>1</sup> Profits can be very large if a company produces something that consumers really like. For example, the four-part film *Hunger Games* will generate large profits for Lionsgate. The first film in the series generated box office receipts of \$155 million in just its first week.

In Canada's economic system, businesses exist to earn profits for owners. But consumers also have freedom of choice, so businesses must take into account what consumers want or need. No matter how efficient a business is, it won't survive if there is no demand for its goods or services. Neither a snowblower shop in Victoria nor a beach-umbrella store in Rankin Inlet is likely to do very well. But a person who can spot a promising opportunity and then develop a good plan for capitalizing on it can

**business** An organization that seeks to earn profits by providing goods and services.

**profit** What remains (if anything) after a business's expenses have been subtracted from its revenues.

**L01** Define the nature of Canadian *business* and identify its main goals.



*“Your Honor, my client pleads guilty to an overzealous but well-intentioned pursuit of the profit motive.”*

succeed. The opportunity always involves goods or services that consumers want or need—especially if no one else is supplying them or if existing businesses are doing so inefficiently or incompletely.

Businesses produce most of the goods and services we consume and they employ the majority of working people. They create most new innovations and provide opportunities for other businesses, which serve as their suppliers. A healthy business climate contributes directly to our quality of life and standard of living. New forms of technology, service businesses, and international opportunities promise to keep production, consumption, and employment growing indefinitely (but not always smoothly). Business profits enhance the personal incomes of owners and shareholders, and business taxes help to support governments at all levels. Many businesses also support charities and provide community leadership. A 2010 study by KPMG of the G7 industrialized countries ranked Canada as the most cost-effective place to do business, and a 2011 study by *Forbes* magazine ranked Canada the number-one country in the world (out of 134 countries) in which to do business.<sup>2</sup>

In addition to for-profit business firms, there are also many not-for-profit organizations in Canada. **Not-for-profit organizations** do not try to make a profit; rather, they use the funds they receive (from government or private grants or the sale of goods or services) to provide services to the public. Charities, educational institutions, churches, hospitals, labour unions, and government agencies are examples of not-for-profit organizations. Business principles are helpful to these not-for-profit organizations as they try to achieve their service goals.

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## Economic Systems Around the World

A Canadian business is different in many ways from a business in China. And both are different from businesses in Japan, France, or Peru. A major determinant of how organizations operate is the kind of economic system that characterizes the country in which they do business. An **economic system** allocates a nation's resources among its citizens. Economic systems differ in terms of who owns and controls these resources.

Describe different types of *global economic systems* according to the means by which they control the *factors of production* through *input and output markets*. **L02**

### Factors of Production

The key difference among economic systems is the way in which they manage the **factors of production**—the basic resources that a country's businesses use to produce goods and services (see Figure 1.1). Traditionally, economists have focused on four factors of production: *labour*, *capital*, *entrepreneurs*, and *natural resources*. Information resources are now often included as well.<sup>3</sup>

**economic system** The way in which a nation allocates its resources among its citizens.

**factors of production** The resources used to produce goods and services: labour, capital, entrepreneurs, and natural resources.

### Labour

The people who work for a company represent the first factor of production, **labour**. Sometimes called **human resources**, labour refers to the mental and physical capabilities of people. Carrying out the business of a huge company like Imperial Oil, for example, requires a labour force with a wide variety of skills ranging from managerial to geological to transportation. Employees who are well trained and knowledgeable can provide a real competitive advantage for a company.

**labour (or human resources)** The mental and physical training and talents of people.

### Capital

Obtaining and using labour and other resources requires **capital**—the financial resources needed to operate an enterprise. Capital is needed to start a new business and then to keep it running and growing. Imperial Oil needs millions of dollars in cash, and millions more in equipment and other assets, to run its operations. Capital

**capital** The funds needed to operate an enterprise.

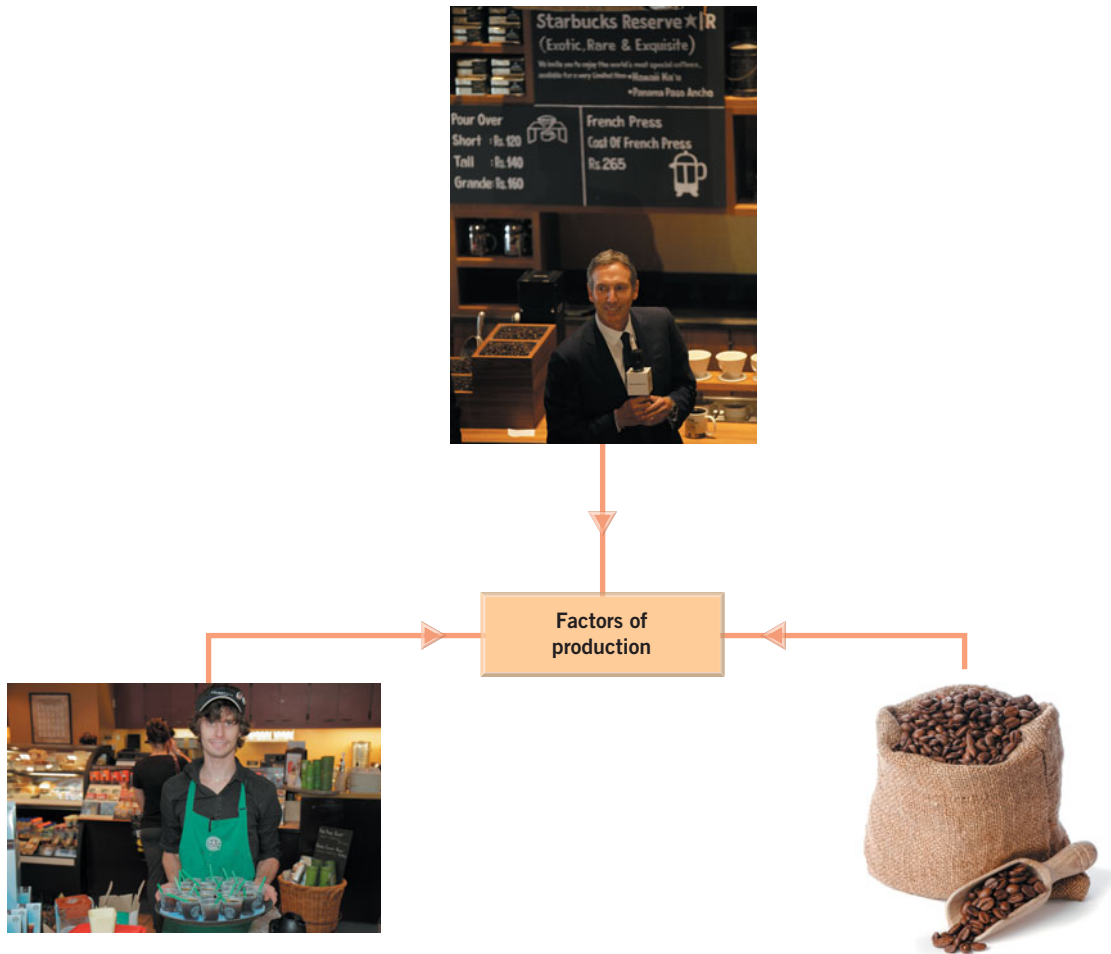


FIGURE 1.1

Starbucks uses various factors of production, including (a) labour, such as this Starbucks barista; (b) entrepreneurs, such as CEO Howard Schultz; and (c) physical resources, including coffee beans.

**entrepreneur** An individual who organizes and manages labour, capital, and natural resources to produce goods and services to earn a profit but who also runs the risk of failure.

**natural resources** Items used in the production of goods and services in their natural state, including land, water, mineral deposits, and trees.

**information resources** Information such as market forecasts, economic data, and specialized knowledge of employees that is useful to a business and that helps it achieve its goals.

can be provided by individual entrepreneurs, partners who start businesses together, or investors who buy stock in the company. Revenue from the sale of products is a key and ongoing source of capital once a business has opened its doors.<sup>4</sup>

## Entrepreneurs

**Entrepreneurs** are people who accept the opportunities and risks involved in creating and operating businesses. Sergie Brin and Larry Page (Google), Michael Dell (Dell Computer), and Mark Zuckerberg (Facebook) are well-known entrepreneurs.

## Natural Resources

**Natural resources** include all physical resources such as land, water, mineral deposits, and trees. Imperial Oil makes use of a wide variety of natural resources. It processes vast quantities of crude oil each year, but it also needs the land where the oil is located, as well as land for its refineries and pipelines.

## Information Resources

**Information resources** include the specialized knowledge and expertise of people who work in businesses, as well as information that is found in market forecasts

and various other forms of economic data. Much of what businesses do results in either the creation of new information or the repackaging of existing information for new users and different audiences. Information is a key factor of production because unlike land, labour, and capital, information can be shared without it being diminished. For example, if two people exchange apples, they still each have only one apple, but if two people exchange ideas, each person now has two ideas instead of one.<sup>5</sup>

## Types of Economic Systems

Different types of economic systems manage the factors of production in different ways. In some systems, ownership is private; in others, the government owns the factors of production. Economic systems also differ in the way that decisions are made about production and allocation. A **command economy**, for example, relies on a centralized government to control most factors of production and to make most production and allocation decisions. In **market economies**, individual producers and consumers control production and allocation decisions as they respond to changes in supply and demand.

### Command Economies

The two most basic forms of command economies are communism and socialism. As originally proposed by the nineteenth-century German economist Karl Marx, **communism** is a system in which the government owns and operates all sources of production. Marx envisioned a society in which individuals would ultimately contribute according to their abilities and receive economic benefits according to their needs. He also expected government ownership of production factors to be only temporary. Once society had matured, government would “wither away” and the workers would gain direct ownership. But Marx’s predictions were faulty, and most countries have abandoned communism in favour of a more market-based economy.

A GlobeScan poll of over 20 000 people in 20 different countries asked people whether they agreed with the following statement: “The free market economy is the best system.” Where do you think the highest support for capitalism was found? Not in Canada, the United States, Germany, or Japan, but in *China*, where 74 percent of people polled agreed with the statement.<sup>6</sup> This occurred in spite of the Chinese government’s strong support of the communist economic ideology. After China’s constitution was amended to permit private enterprise, the private sector has become incredibly productive. It is estimated that China produces 60 percent of all the toys in the world,<sup>7</sup> and China’s reputation for being a low-cost producer of goods is legendary. Changes are also occurring in communist Cuba: More private initiative is being encouraged, and the role of the state is being reduced in some sectors.<sup>8</sup>

In a less extensive command economic system called **socialism**, the government owns and operates only selected major industries. Smaller businesses such as clothing stores and restaurants may be privately owned. Although workers in socialist countries are usually allowed to choose their occupations or professions, a large proportion generally works for the government. Many government-operated enterprises are inefficient, since management positions are frequently filled based on political considerations rather than on ability. Extensive public welfare systems have also resulted in very high taxes. Because of these factors, socialism is also declining in popularity.<sup>9</sup>

### Market Economies

A **market** is a mechanism for exchange between the buyers and sellers of a particular good or service. For example, the internet is a technologically sophisticated market

**command economy** An economic system in which government controls all or most factors of production and makes all or most production decisions.

**market economy** An economic system in which individuals control all or most factors of production and make all or most production decisions.

**communism** A type of command economy in which the government owns and operates all industries.

**socialism** A kind of command economy in which the government owns and operates the main industries, while individuals own and operate less crucial industries.

**market** A mechanism for exchange between the buyers and sellers of a particular good or service.