



9TH CANADIAN
EDITION

Fundamentals of Management

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Preface


Welcome to the ninth Canadian edition of *Fundamentals of Management*, by Stephen P. Robbins, David A. DeCenzo, Mary Coulter, and Ian Anderson. This edition continues the fresh approach to management coverage of the previous editions through the following:

- current and relevant examples
- updated theory
- a new pedagogically sound design

The philosophy behind this revision was to put additional emphasis on the idea that *management is for everyone*. Students who are not managers, or who do not envision themselves as managers, may not always see why studying management is important. We use examples from a variety of settings to help students understand the relevance of studying management to their day-to-day lives.

Chapter Pedagogical Features

We have enhanced the ninth Canadian edition with a rich variety of pedagogical features, including the following:

- Learning outcomes to guide student learning begin each chapter. These questions are repeated at the start of each major chapter section to reinforce the learning outcome.
- An opening case starts the body of the chapter and is threaded throughout to help students apply a story to the concepts they are learning.
- The use of infographics in each chapter presents information graphically to help visual learners with the related concepts. In addition, an increase in photographs enhances business concepts throughout the text.
-  Sustainability is an important topic and it's critical for our students—our future business leaders—to be familiar with it. So we added an icon to help you and your students recognize how pervasive sustainability is.
- *And the Survey Says . . .* provides relevant Canadian and global data to help students understand business metrics and the Canadian significance of various management topics.
- *Tips for Managers* provide “take-aways” from the chapter—things that managers and would-be managers can start to put into action right now, based on what they have learned in the chapter.
- *Technology and the Manager's Job* looks at the impact technology has on managers.

- *What's Cooking in Hospitality?* is a new feature that looks at management issues in the hospitality sector—one that employs over 600 000 Canadians and generates more than \$80 billion in revenue.
- *Bust this Myth—Management Myths Debunked* features common management myths that help illustrate what students can learn from this text. The fun video component in the Revel edition highlights the myths and why they are just that—myths—and then explains why.
- *A Question of Ethics* was added to the ninth Canadian edition. This feature provides students with real-life ethical scenarios that managers face.

End-of-Chapter Applications

The entire end-of-chapter section provides a wealth of exercises and applications.

- The *Summary of Learning Outcomes* provides responses to the outcome-based questions identified at the beginning of each chapter.
- *Discussion Questions* allow students to review their understanding of the chapter content.
- *Developing Management Skills* lets students apply material to their daily lives as well as to real business situations related to the chapter material, helping them see that planning, leading, organizing, and controlling are useful in one's day-to-day life, too. This feature includes several exercises, such as the ones described below.
- *Dilemma* presents an everyday scenario for students to resolve using management tools.
- *Becoming a Manager* provides suggestions for students on activities and actions they can do right now to help them prepare to become a manager.
- *3BL: The Triple Bottom Line* helps students apply sustainability to business situations.
- *Be the Consultant* emphasizes the importance of interpersonal and organizational skills.
- *Team Exercises* give students a chance to work together in groups to solve a management challenge.
- *Hey, You're the Boss Now* and *Diversity Matters* increase the diversity component of the text and give students a hands-on perspective of being a supervisor or manager.
- The *Business Cases* are decision-focused scenarios that ask students to determine what they would do if they were in the situation described.

New to the Ninth Canadian Edition

In addition to the new pedagogical features highlighted above, we have introduced or revised other learning aids and made significant changes to content.

Case Program

This edition offers a variety of cases that can be used in or out of the classroom.

- End-of-Chapter Cases: At the end of each chapter we offer brief, chapter-specific cases in the *Developing Management Skills* and *Business Cases* sections. These cases include a variety of open-ended questions for classroom discussion or small-group assignment. A third case has been added to each chapter.

Chapter-by-Chapter Highlights

Below, we highlight the new material that has been added to this edition.

Chapter 1

- Updated opening case on Calgary mayor Naheed Nenshi
- New section on the new world of management, including innovation, social media, and sustainability
- New end-of-chapter (EOC) material (*Hey, You're the Boss Now* on Generations X, Y, and Z, and *Developing Management Skills* on becoming politically adept)
- Management Myth Debunked: Only those who want to be managers need to take a course in management
- New exhibits on characteristics of organizations, management levels, and activities by management level
- New case on Holocracy (Zappos)
- Updated case on Shopify
- New supplement on Entrepreneurship with expanded content

Chapter 2

- New opening case on Spin Master
- New case on the movie theatre industry
- New content on the internet of things and a new case on Miovision Technologies Inc.
- New sections on the sharing economy, what is the economy like today, what does it mean to be global, and national culture versus organizational culture
- Management Myth Debunked: It doesn't matter what an organization's culture is like; I can be happy working anywhere
- New exhibits on Gen X, Y, and Z, and how culture can be described
- *And the Survey Says ...* on the sharing economy

- New EOC material (*Be the Consultant* on understanding culture)

Chapter 3

- New opening case on socially responsible investing (SRI)
- New case on Credit Valley Hospital
- Updated case on Blue Jays Baseball
- New content on national culture's impact on decision making, creativity and design thinking, big data, and quantitative decision-making aids
- New decision-making example on purchasing a car
- Management Myth Debunked: A good decision should be defined by its outcome
- New exhibits on the decision making process and social responsibility

Chapter 4

- Updated opening case on Stantec
- New cases on Zara Fast Fashion and the Prince Edward County wine region
- Updated case on SilverBirch
- New content on contingency factors and planning, why strategic management is important, social media as a strategic weapon, and big data as a strategic weapon
- Management Myth Debunked: Planning is a waste of time because no one can predict the future
- Updated EOC material on competitive intelligence

Chapter 5

- Updated opening case on Empire Company (Sobeys)
- New case on Yahoo
- Updated cases on Pfizer and Levitt-Safety
- New content on today's organizational design challenges, flexible working arrangements, and authority versus responsibility
- Updated content on learning organizations, organizational structure, span of control, and work specialization
- Management Myth Debunked: Bureaucracies are inefficient
- New Exhibits on authority versus power and contemporary organizational designs

Chapter 6

- New opening case on Freshco Retail Maintenance
- Two new cases on spotting talent and dealing with romance in the workplace
- Updated case on Wellington West

- New content on recruitment, closing the deal, Canadian employment legislation, and bullying
- Updated content on performance management and recruitment and selection
- Management Myth Debunked: Managers don't need to know about human resources because that's the job of the HR department
- New exhibit on recruitment sources
- New EOC material (*Developing Your Interpersonal Skills* on giving good feedback)

Chapter 7

- New opening case on Article
- Two new cases on Under Armour and Island Water Tech
- Updated content on categories of change
- Management Myth Debunked: There's nothing managers can do to reduce the stress inherent in today's jobs
- New exhibit on categories of change

Chapter 8

- Updated opening case on The Virgin Group
- New case on team building
- Two updated cases on Whole Foods Canada and Toyota Canada
- Management Myth Debunked: Teams always outperform employees working individually
- New exhibits on groups versus teams, global teams, and stages of group development
- New content on team effectiveness, work design, team processes, conformity, status systems, and group cohesiveness

Chapter 9

- New opening case on GestureTek (gamification)
- New case on Gravity Payments
- Two updated cases on DevFacto Technologies and Ubisoft Entertainment SA
- Management Myth Debunked: Motivation is all about "Show me the money"
- New exhibit on job characteristics
- New content on burnout, job design influencing motivation, job characteristics, motivating employees when the economy stinks, and gamification and rewards
- Updated content on pay for performance, diverse workforces, open-book management, flextime, and integrating contemporary theories of motivation

Chapter 10

- New opening case on HSBC Canada
- Two new cases on Starbucks and developing Gen Y leaders
- Updated case on ROWE
- New content on Fiedler, Vroom, LMX theory, empowerment, emotional intelligence and leadership, national culture
- Management Myth Debunked: Leadership can't be taught
- New exhibit on The Fiedler Model
- Updated EOC material (*Management Skills Builder* on increasing your power)

Chapter 11

- New chapter on managing communication and information
- New opening case on Mini Mioche
- Three new cases on Twitter, delivering bad news, and e-mail
- Management Myth Debunked: Managers should try to stifle the grapevine
- New exhibit on active listening
- Adapted EOC material (*Hey, You're the Boss Now* on getting started with social media, *3BL* on communication styles of men and women, *Be the Consultant* on writing better e-mails)

Chapter 12

- New opening case on Comptoir Agricole Ste-Anne
- Two new cases on Visa OCE and Lululemon
- Updated case on Balanced Scorecard
- New material on workplace violence, and disciplining difficult employees
- Management Myth Debunked: A lack of employee turnover is a sign of a good manager
- New exhibits on acceptable range of variation and controlling workplace violence

Chapter 13

- New opening case on Maple Leaf Foods
- Two new cases on tragedy in fashion and cow-milking robots
- New content on blockchain, value chain management, conflict management, and quality
- Management Myth Debunked: In the future of manufacturing, robots will replace almost all workers

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I dedicate this book to my wife, Tracy, who is my loving support and inspiration, and my two sons, Shaun and Isaac.

Ian Anderson

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Dr. Robbins is the world's best-selling textbook author in the areas of management and organizational behaviour. His books have sold more than 5 million copies and have been translated into 20 languages. His books are currently used at more than 1500 US colleges and universities as well as hundreds of schools throughout Canada, Latin America, Australia, New Zealand, Asia, and Europe.

Dr. Robbins also participates in masters track competition. Since turning 50 in 1993, he's won 23 national championships and 14 world titles. He was inducted into the US Masters Track & Field Hall of Fame in 2005 and is currently the world record holder at 100m and 200m for men 65 and over.



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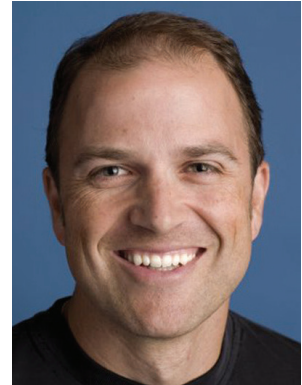
MARY COULTER (PhD, University of Arkansas) held different jobs, including high school teacher, legal assistant, and city government program planner, before completing her graduate work. She has taught at Drury University, the University of Arkansas, Trinity University, and Missouri State University. She is currently professor emeritus of management at Missouri State University. Dr. Coulter's research interests were focused on competitive strategies for not-for-profit arts organizations and the use of new media in the educational process. Her research on these and other topics has appeared in such journals as *International Journal of Business Disciplines*, *Journal of Business Strategies*, *Journal of Business Research*, *Journal of Nonprofit and Public Sector Marketing*, and *Case Research Journal*. In addition to *Fundamentals of Management*, Dr. Coulter has published other books with Prentice Hall including *Management* (with Stephen P. Robbins), *Strategic Management in Action*, and *Entrepreneurship in Action*.

When she's not busy writing, Dr. Coulter enjoys puttering around in her flower gardens, trying new recipes, reading different types of books, and enjoying many different activities with Ron, Sarah and James, Katie and Matt, and especially with her new grandkids, Brooklynn and Blake, who are the delights of her life!



IAN ANDERSON received his Master's of Business Administration in Innovation Leadership from the University of Fredericton. Before commencing his college teaching career, he was the director of human resources for a large Ottawa-based IT company. Ian is also a human resources and management consultant with Association Management, Consulting & Educational Services (AMCES), is a certified Change Management Professional, and has been actively consulting for more than 25 years. At Algonquin College, Ian is a professor in management, leadership, and human resources, and he coaches students in business-case and college-marketing competitions.

In his spare time, Ian enjoys coaching Special Olympics soccer and volunteering with his favourite charity, the Capital City Condors. He has coached competitive and recreational hockey and soccer for more than 20 years. As a sommelier, he provides tutored tastings and wine and scotch education. Ian's parents, Bob and Katharine, are from the Niagara area.



Supplement 1A

A Brief History of Management

Henry Ford once said, “History is more or less bunk.” Well ... Henry Ford was wrong! History is important because it can put current activities in perspective. We propose that you need to know management history because it can help you understand what today’s managers do. In this module, you’ll find an annotated timeline that discusses key milestones in management theory. We believe this approach will help you better understand the origins of many contemporary management concepts.

Early Management

Management has been practised a long time. Organized endeavours directed by people responsible for planning, organizing, leading, and controlling activities have existed for thousands of years. Regardless of what these individuals were called, someone had to perform those functions.

3000–2500 BCE

The Egyptian pyramids are proof that projects of tremendous scope, employing tens of thousands of people, were completed in ancient times.¹ It took more than 100 000 workers some twenty years to construct a single pyramid. Someone had to plan what was to be done, organize people and materials to do it, make sure those workers got the work done, and impose some controls to ensure that everything was done as planned. That someone was managers.

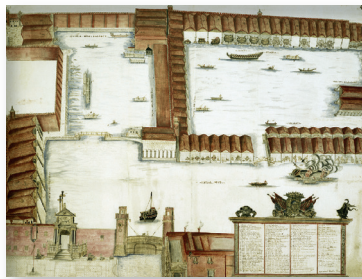
Stephen Studd/Getty Images



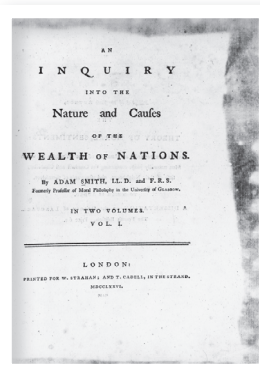
1400s

At the arsenal of Venice, warships were floated along the canals, and at each stop, materials and riggings were added to the ship.² Sounds a lot like a car “floating” along an assembly line, doesn’t it? In addition, the Venetians used warehouse and inventory systems to keep track of materials, human resource management functions to manage the labour force (including wine breaks), and an accounting system to keep track of revenues and costs.

Antonio Natile/Getty Images



Fotosearch/Stringer/Archive Photos/Getty Images



Transcendental Graphics/Archive Photos/Getty Images



1780s–Mid-1800s

The **Industrial Revolution** may be the most important pre-twentieth-century influence on management. Why? Because with the industrial age came the birth of the corporation. With large, efficient factories pumping out products, someone needed to forecast demand, make sure adequate supplies of materials were available, assign tasks to workers, and so forth. Again, that someone was managers! It was indeed a historical event

for two reasons: (1) because of all the organizational aspects (hierarchy, control, job specialization, and so forth) that became a part of the way work was done and (2) because management had become a necessary component to ensure the success of the enterprise.

1776

This is an important year because it’s the year Adam Smith’s *Wealth of Nations* was published. In it, he argued the economic advantages of the **division of labour** (or **job specialization**)—that is, breaking down jobs into narrow, repetitive tasks. Using division of labour, individual productivity could be increased dramatically. Job specialization continues to be a popular way to determine how work gets done in organizations. As you’ll see in Chapter 5, it does have its drawbacks.

Classical Approaches

Beginning around the beginning of the twentieth century, the discipline of management began to evolve as a unified body of knowledge. Rules and principles were developed that could be taught and used in a variety of settings. These early management proponents were called classical theorists.

1911

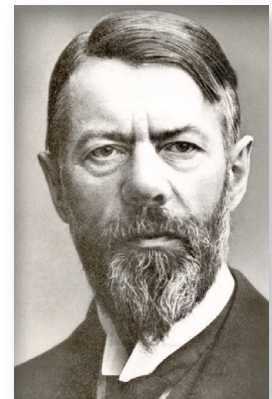
That's the year Frederick W. Taylor's *Principles of Scientific Management* was published. His groundbreaking book described a theory of **scientific management**—the use of scientific methods to determine the “one best way” for a job to be done. His theories were widely accepted and used by managers around the world, and Taylor became known as the “father” of scientific management.³ Other major contributors to scientific management were Frank and Lillian Gilbreth (early proponents of time-and-motion studies and parents of the large family described in the original book *Cheaper by the Dozen*) and Henry Gantt (whose work on scheduling charts was the foundation for today's project management).



Bettmann/Corbis

1916–1947

Unlike Taylor, who focused on an individual production worker's job, Henri Fayol and Max Weber looked at organizational practices by focusing on what managers do and what constitutes good management. This approach is known as **general administrative theory**. Fayol was introduced in Chapter 1 as the person who first identified five management functions. He also identified fourteen **principles of management**—fundamental rules of management that could be applied to all organizations.⁴ (See Exhibit S1A-1 for a list of these fourteen principles.) Weber is known for his description and analysis of bureaucracy, which he believed was an ideal, rational form of organizational structure, especially for large organizations. In Chapter 5, we elaborate on these two important management pioneers.



Hulton Archive/Getty Images

Exhibit S1A-1 Fayol's Fourteen Principles of Management

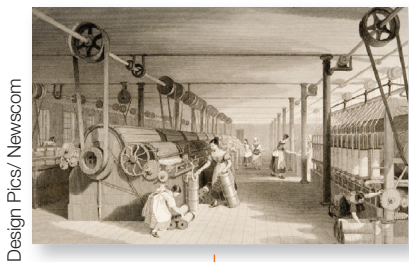
1. **Division of work.** This principle is the same as Adam Smith's *division of labour*. Specialization increases output by making employees more efficient.
2. **Authority.** Managers must be able to give orders. Authority gives them this right. Along with authority, however, goes responsibility. Whenever authority is exercised, responsibility arises.
3. **Discipline.** Employees must obey and respect the rules that govern the organization. Good discipline is the result of effective leadership, a clear understanding between management and workers regarding the organization's rules, and the judicious use of penalties for infractions of the rules.
4. **Unity of command.** Every employee should receive orders from only one superior.
5. **Unity of direction.** Each group of organizational activities that have the same objective should be directed by one manager using one plan.
6. **Subordination of individual interests to the general interest.** The interests of any one employee or group of employees should not take precedence over the interests of the organization as a whole.
7. **Remuneration.** Workers must be paid a fair wage for their services.
8. **Centralization.** Centralization refers to the degree to which subordinates are involved in decision making. Whether decision making is centralized (to management) or decentralized (to subordinates) is a question of proper proportion. The task is to find the optimum degree of centralization for each situation.
9. **Scalar chain.** The line of authority from top management to the lowest ranks represents the *scalar chain*. Communications should follow this chain. However, if following the chain creates delays, cross-communications can be allowed if agreed to by all parties and if superiors are kept informed. Also called *chain of command*.
10. **Order.** People and materials should be in the right place at the right time.
11. **Equity.** Managers should be kind and fair to their subordinates.
12. **Stability of tenure of personnel.** High employee turnover is inefficient. Management should provide orderly personnel planning and ensure that replacements are available to fill vacancies.
13. **Initiative.** Employees who are allowed to originate and carry out plans will exert high levels of effort.
14. **Esprit de corps.** Promoting team spirit will build harmony and unity within the organization.

Behavioural Approach

The behavioural approach to management focused on the actions of workers. How do you motivate and lead employees in order to get high levels of performance?

Late 1700s–Early 1900s

Managers get things done by working with people. Several early management writers recognized how important people are to an organization’s success.⁵ For instance, Robert Owen, who was concerned about deplorable working conditions, proposed an idealistic workplace. Hugo Munsterberg, a pioneer in the field of industrial psychology, suggested using psychological tests for employee selection, learning theory concepts for employee training, and studies of human behaviour for employee motivation. Mary Parker Follett was one of the first to recognize that organizations could be viewed from both individual *and* group behaviour. She thought that organizations should be based on a group ethic rather than on individualism.



Design Pics/ Newscom



Hawthorne Works Factory of Morton College

1924–Mid-1930s

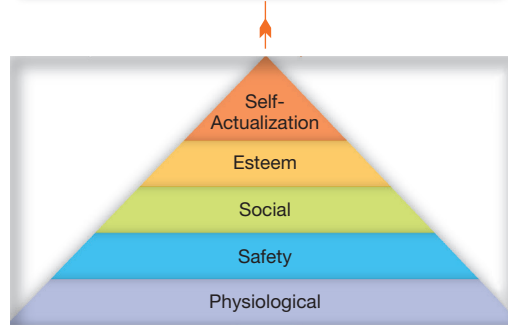
The **Hawthorne studies**, a series of studies that provided new insights into individual and group behaviour, were without question the most important contribution to the behavioural approach to management.⁶ Conducted at the Hawthorne (Cicero, Illinois) Works of the Western Electric Company, the studies were initially designed as a scientific management experiment. Company engineers wanted to see the effect of various lighting levels on worker productivity. Using control and experimental groups of workers, they expected to find that individual output in the experimental group would be directly related to the intensity of the light. However, much to their surprise, they found that productivity in both groups varied with the level of lighting. Not able to explain it, the engineers called in Harvard professor Elton Mayo. Thus began a relationship that lasted until 1932 and encompassed numerous experiments in the behaviour of people at work. What were some of their conclusions? Group pressures can significantly affect individual productivity, and people behave differently when they’re being observed. Scholars generally agree that the Hawthorne studies had a dramatic impact on management beliefs about the role of people in organizations and led to a new emphasis on the human behaviour factor in managing organizations.

1960s–Today

An organization’s people continue to be an important focus of management research. The field of study that researches the actions (behaviours) of people at work is called **organizational behaviour (OB)**. OB researchers do empirical research on human behaviour in organizations. Much of what managers do today when managing people—motivating, leading, building trust, working with a team, managing conflict, and so forth—has come out of OB research. These topics are explored in depth in Chapter 13.



Shutterstock



1930s–1950s

The human relations movement is important to management history because its supporters never wavered from their commitment to making management practices more humane. Proponents of this movement uniformly believed in the importance of employee satisfaction—a satisfied worker was believed to be a productive worker.⁷ So they offered suggestions like employee participation, praise, and being nice to people to increase employee satisfaction. For instance, Abraham Maslow, a humanistic psychologist who is best known for his description of a hierarchy of five needs (a well-known theory of employee motivation), said that once a need was substantially satisfied, it no longer served to motivate behaviour. Douglas McGregor developed Theory X and Theory Y assumptions, which related to a manager’s beliefs about an employee’s motivation to work. Even though both Maslow’s and McGregor’s theories were never fully supported by research, they are important because they represent the foundation from which contemporary motivation theories were developed. Both are described more fully in Chapter 9.

Quantitative Approach

The quantitative approach, which focuses on the application of statistics, optimization models, information models, computer simulations, and other quantitative techniques to management activities, provided tools for managers to make their jobs easier.

1940s

The **quantitative approach** to management—which is the use of quantitative techniques to improve decision making—evolved from mathematical and statistical solutions developed for military problems during World War II. After the war was over, many of these techniques used for military problems were applied to businesses.⁸ For instance, one group of military officers, dubbed the “Whiz Kids,” joined Ford Motor Company in the mid-1940s and immediately began using statistical methods to improve decision making at Ford.



Bert Hardy/Hulton Archive/Getty Images

1950s

After World War II, Japanese organizations enthusiastically embraced the concepts espoused by a small group of quality experts, the most famous being W. Edwards Deming (photo below) and Joseph M. Juran. As these Japanese manufacturers began beating US competitors in quality comparisons, Western managers soon took a more serious look at Deming’s and Juran’s ideas.⁹ Their ideas became the basis for **total quality management (TQM)**, which is a management philosophy devoted to continual improvement and responding to customer needs and expectations. We’ll look closer at Deming and his beliefs about TQM in Chapter 6.



Richard Drew/AP Images

Contemporary Approaches

Most of the early approaches to management focused on managers' concerns inside the organization. Starting in the 1960s, management researchers began to look at what was happening in the external environment outside the organization.

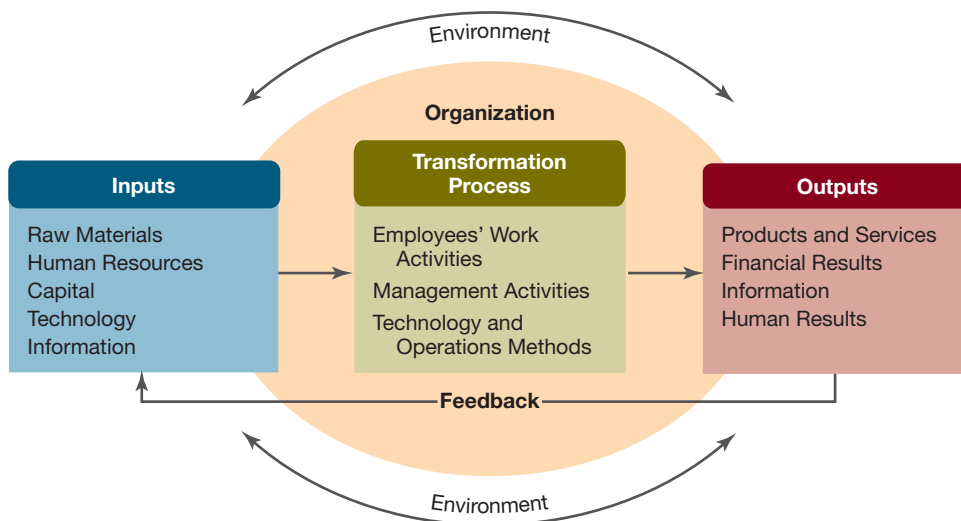
1960s

Although Chester Barnard, a telephone company executive, wrote in his 1938 book *The Functions of the Executive* that an organization functioned as a cooperative system, it wasn't until the 1960s that management researchers began to look more carefully at systems theory and how it related to organizations.¹⁰ The idea of a system is a basic concept in the physical sciences. As related to organizations, the **systems approach** views systems as a set of interrelated and interdependent parts arranged in a manner that produces a unified whole. Organizations function as **open systems**, which means they are influenced by and interact with their environment. Exhibit S1A-2 illustrates an organization as an open system. A manager has to efficiently and effectively manage all parts of the system in order to achieve established goals. See Chapter 2 for additional information on the external and internal factors that affect how organizations are managed.



Frederic J. Brown/Newscom

Exhibit S1A-2 Organization as an Open System



Contemporary Approaches



Image Source/Getty Images

1960s

Early management theorists proposed management principles that they generally assumed to be universally applicable. Later research found exceptions to many of these principles. The **contingency approach** (or **situational approach**) says that organizations, employees, and situations are different and require different ways of managing. A good way to describe contingency is “if ... then.” *If* this is the way my situation is, *then* this is the best way for me to manage in this situation. One of the earliest contingency studies was done by Fred Fiedler and looked at what style of leadership was most effective in what situation.¹¹ Popular contingency variables have been found to include organization size, the routineness of task technology, environmental uncertainty, and individual differences.

1980s–Present

Although the dawn of the information age is said to have begun with Samuel Morse’s telegraph in 1837, the most dramatic changes in information technology occurred in the latter part of the twentieth century and have directly affected the manager’s job.¹² Managers now may manage employees who are working from home or halfway around the world. An organization’s computing resources used to be mainframe computers locked away in temperature-controlled rooms and accessed only by the experts. Now, practically everyone in an organization is connected—wired or wireless—with devices no larger than the palm of the hand. Just like the impact of the Industrial Revolution in the 1700s on the emergence of management, the information age has brought dramatic changes that continue to influence the way organizations are managed.

Industrial Revolution

The advent of machine power, mass production, and efficient transportation that began in the late eighteenth century in Great Britain.

division of labour (or job specialization)

The breakdown of jobs into narrow, repetitive tasks.

scientific management

The use of the scientific method to define the one best way for a job to be done.

general administrative theory

Descriptions of what managers do and what constitutes good management practice.

principles of management

Fayol’s fundamental or universal principles of management practice.

Hawthorne studies

Research done in the late 1920s and early 1930s devised by Western Electric industrial engineers to examine the effect of different work environment changes on worker productivity, which led to a new emphasis on the human factor in the functioning of organizations and the attainment of their goals.

organizational behaviour (OB)

The field of study that researches the actions (behaviours) of people at work.

quantitative approach

The use of quantitative techniques to improve decision making.

total quality management (TQM)

A managerial philosophy devoted to continual improvement and responding to customer needs and expectations.

systems approach

An approach to management that views an organization as a system, which is a set of interrelated and interdependent parts arranged in a manner that produces a unified whole.

open systems

Systems that dynamically interact with their environment.

contingency approach (or situational approach)

An approach to management that says that individual organizations, employees, and situations are different and require different ways of managing.

3000 BCE–1776
Early Management

1911–1947
Classical Approaches

Late 1700s–1950s
Behavioural Approach

1940s–1950s
Quantitative Approach

1960s–present
Contemporary Approaches

Supplement 1B

Small and Medium-Sized Enterprises and Organizations

“A big business starts small.”

—Richard Branson

According to billionaire serial entrepreneur Richard Branson, small businesses “are the lifeblood of the economy that drive innovation, create jobs and push humanity forward.”¹ His advice to anyone thinking of starting their own business is to “start small but always think big.”²

In this module we will discuss the characteristics of small and medium-sized enterprises and organizations, and the prominent factors that are key to their success: management skills and competencies, human resources, access to financing, innovation capacity, and networks and partnerships.

What Are Small and Medium-Sized Enterprises?

Small and medium-sized enterprises (SMEs) refer to all businesses with fewer than 500 employees, whereas firms with 500 or more employees are classified as “large” businesses.

Canada has more than 1.5 million SMEs, which generate close to half of Canada’s private-sector gross domestic product (GDP). SMEs account for the vast majority of businesses in Canada, represent over 60 percent of private-sector employment, and generate more than 80 percent of new job creation.³ They are active in all sectors of the Canadian economy, with two-thirds in the service sector (64 percent), one-fifth in the goods-producing sector (21 percent), and a significant number (15 percent) in the resource-based sector.⁴

The majority of SMEs are self-managed enterprises, offering entrepreneurs the pride of personal achievement, the ability to help their customers and clients, the benefits of being their own boss, and the opportunity to make more money.⁵ The biggest challenges for SMEs are finding new markets and customers, dealing with finances, and handling government regulations and paperwork. Entrepreneurs also work longer hours, logging an average of 48.7 hours per week. Thirty-five percent of entrepreneurs work more than 50 hours per week, compared with 5 percent of employees.⁶

While about 75 percent of SMEs in Canada have been in business for five years or more, failure rates are relatively high in the first few years after startup, with two out of five firms not surviving beyond their second year of operation.⁷ Debt financing is the primary source of financing for SMEs, with debt accounting for 75 percent of their long-term financing structure. SMEs use more informal financing sources, including owner savings and retained earnings. Use of government financing is less important for SMEs than other types of financing.⁸

Key Findings^{9, 10}

- Canada's 1.2 million SMEs generate 45 percent of private-sector GDP.
- Eighty-six percent of Canadian exporters are SMEs, generating \$106 billion in exports.
- Ninety-eight percent of SMEs have less than 100 employees, and 80 percent are either self-employed businesses or micro organizations (one to four employees).
- In 2014, 16% of SMEs were majority owned by women, and 20% were equally owned by women and men.
- Since 2002, SMEs created over 1.2 million jobs, accounting for almost 90 percent of all private jobs created.
- SMEs employ over 8 million Canadians, 70 percent of the total private labour force.
- Forty-one percent of Canada's entrepreneurs have previously owned a business.

What Are Small and Medium-Sized Organizations?

Small and medium-sized organizations (SMOs) are community organizations that, like SMEs, have fewer than 500 paid staff. SMOs comprise nearly 99 percent of nonprofits in Canada. The term *community organization* is used broadly to include a wide variety of nonprofit organizations in Canada: charitable and voluntary organizations; parapublic organizations such as hospitals and postsecondary education institutions; and social economy organizations, community economic development organizations, and cooperatives.¹¹

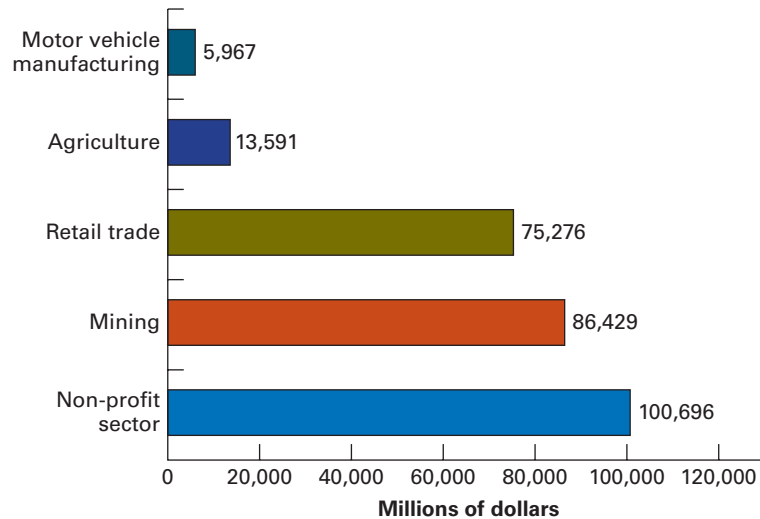
Imagine Canada, working with a consortium of organizations, conducted the largest survey of nonprofit enterprises in Canada. According to 2015 data, Canada has approximately 161 000 nonprofit and voluntary organizations, which generate revenues greater than \$250 billion and employ over 2 million people.¹² The organizations are spread throughout Canada, with more than 900 in PEI and more than 20 000 in Toronto alone. One-third of all organizations are hospitals, universities, and colleges, while sport and recreation organizations comprise another 21 percent.¹³ This sector also reports close to 20 million volunteers contributing more than 2 billion volunteer hours per year—the same as 1 million full-time jobs!¹⁴ The Capital City Condors have a membership base of 120, whereas the entire Canadian nonprofit sector features 139 million memberships.¹⁵ Exhibit S1B-1 shows the economic impact of the nonprofit sector in Canada, compared to other industries.

Key Findings¹⁶

- Canada's nonprofit and voluntary sector is the second largest in the world; the Netherlands is the largest, while the United States is fifth.
- Fifty-four percent of the estimated 161 000 nonprofits and charities in Canada are run entirely by volunteers.
- Two million people are employed by these organizations, representing 11.1 percent of the economically active population.
- The nonprofit and voluntary sector represents \$79.1 billion, or 7.8 percent, of the GDP (larger than the automotive or manufacturing industries).
- Forty-nine percent of revenues are from government, although this figure drops to 36 percent when hospitals, universities, and colleges are excluded.
- Canadians contribute more than 2 billion hours annually through SMOs.

Exhibit S1B-1 Gross Domestic Product: Nonprofit Sector and Selected Industries, 2006

SOURCE: Based on Statistics Canada, *Satellite Account of Nonprofit Institutions and Volunteering, 2007*, Catalogue no. 13-015-X (Ottawa: Statistics Canada, 2009), p. 11, <http://www.statcan.gc.ca/pub/13-015-x/13-015-x2009000-eng.pdf>.



Looking at the Canadian nonprofit sector can help us understand that management is very similar in all organizations. SMOs participate fully in social, economic, community, and civic life. They run food banks and homeless shelters, provide child care, build bike paths, and welcome new Canadians to the country. Increasingly, governments at all levels rely on community organizations to deliver essential public services.

SMOs face significant challenges, including increasing service demands, diminishing financial resources, and staff burnout. They receive most of their revenue from earned income and government sources. Large community organizations represent less than 1 percent of the market but receive almost one-third of revenues.

SMEs and SMOs in Canada: Key Characteristics

SMEs and SMOs in Canada have many important similarities as well as significant differences. The key distinction between SMEs and SMOs is whether they seek to generate a profit or are nonprofit. At the same time, successful SMOs are run with a profit mentality to ensure that they remain financially viable. With the rise of social entrepreneurship, the boundaries between SMEs and SMOs may become somewhat blurred.¹⁷

Another major difference between SMEs and SMOs is their use of volunteers. While some SMEs may have unpaid family members or others who work in the enterprise, volunteers are the lifeblood of SMOs. Most SMOs rely heavily on volunteers to deliver their mission.

For SMEs, success is usually defined in terms of growth—in sales, profits, firm size, and market share. SMOs, even those that provide goods and services, typically equate success with the ability of an organization to deliver on its mission and to achieve results for communities and individuals. Revenue or profit growth is not as relevant for SMOs as it is for SMEs, given their different missions.

The prominent key success factors for SMEs and for SMOs are management skills and competencies, human resources, access to financing, innovation capacity, and networks and partnerships.

Management in SMEs and SMOs

Management skills and competencies are integral to business success for SMEs. Research has shown that business failures can be attributed in large part to management and organizational weaknesses. For example, some studies have found that almost half of bankruptcies result from these internal factors rather than external ones.¹⁸

SMEs require a wide variety of management skills, including leadership, strategic planning, financial and human resources management, communications and marketing, organizational development, entrepreneurial skills, and networking and partnership skills. In the startup phase, management focuses more on vision, marketing, and communications skills. As a firm expands, financial and human resources management and expertise become more prominent.

Many of these same management skills and competencies are also important for SMOs. SMOs often lack middle-management levels, featuring only an executive director and perhaps a few project managers, resulting in a lack of time for planning. The management of issues around the recruitment, training, support, recognition, and retention of volunteers, as well as volunteer burnout, is critically important for community organizations, given that they rely heavily on volunteers to deliver their missions. The ability to work effectively with boards of directors is also a unique management competency.¹⁹

Human Resources in SMEs and SMOs

The supply of skilled labour is an important issue for both SMEs and SMOs. Demographic trends will likely mean even greater shortages of skilled employees and managers. Staff training and development must become more prominent to cope with this challenge. SMOs also face unique human resources challenges relating to recruiting, training, and retention of volunteers. As demand for SMOs increases, the need for volunteer leaders and long-term commitments from volunteers becomes crucial. The majority of SMOs also report significant challenges in obtaining board members.²⁰ Lower compensation levels in the nonprofit sector contribute to difficulties in finding the right staff.

Financing in SMEs and SMOs

Access to financing is equally critical for both SMEs and SMOs; however, the financing challenges they face are very different. Smaller and startup organizations have difficulty accessing external financing due to a lack of assets and collateral, smaller profits, and uncertain return on investment. A lack of investment capital is a further problem for SMEs in Canada.²¹

SMOs face significant challenges with regard to both *financing* (access to private and commercial revenue sources) and *funding* (grants and contributions from government/-public sources for goods and services provided). Typically funding is tied to projects and does not cover the operational, administrative, and overhead costs. SMOs must absorb or finance these costs from other sources, which limits their financial capability and flexibility.

Innovation in SMEs and SMOs

Innovation applies to both SMEs and SMOs in terms of new and improved products, services, and processes. For SMEs, innovation is seen as the single most important factor for growth and success and is usually measured in terms of research and development (R&D). SMEs in Canada spend much less on R&D than larger firms, but as a

Exhibit S1B-2 Criteria for Successful Innovation in SMOs

Adaptability	The extent to which an organization has had to adapt innovative practices to deliver programs and services
Criticality	How mission-critical the activity is for the association
Sustainability	The viability of the program/service
Replicability	The ability to duplicate the program/service in another organization
Impact	How the programs/services help to improve the organization's work
Partnerships	Building partnerships between organizations in the sector or across sectors

percentage of revenue R&D spending by SMEs is much greater.²² Since SMEs have fewer resources, they may select innovation opportunities missed by larger firms. Their organizational flexibility can be a big advantage, but the ability to bring these innovations to market and make money on them is more challenging than for larger firms.

For SMOs, innovation is their lifeblood. Through their strong local networks, hands-on experience, and community interaction, they are able to find innovative solutions to community and individual needs. The bigger challenge is how to apply these community-based innovations to other areas of activity and to other communities and regions.

The Peter Drucker Canadian Foundation has studied hundreds of examples of innovation by Canadian nonprofit organizations and has identified six key criteria for successful innovation, shown in Exhibit S1B-2.

Networks and Partnerships in SMEs and SMOs

Networks and partnerships are critical for organizations to access information, knowledge, expertise, and technology. Firms can use these partnerships to help predict and take advantage of strategic opportunities and to mobilize available resources. They are also important factors for fostering innovation.²³

SMEs in Canada benefit from organizations such as local and national chambers of commerce, boards of trade, and the Canadian Federation of Independent Businesses (CFIB). This infrastructure fosters the exchange of knowledge and expertise as well as the development of collaboration among firms for common purposes. SMOs have much less access to infrastructure networks. Networks such as the Calgary Chamber of Charities or the British Columbia Voluntary Organizations Coalition are deliberately cross-sector and provide opportunities for collaboration and collective action, but the majority of SMOs continue to operate alone.

Supplement 1C

Entrepreneurship¹

You may decide that you want to run your own business rather than work for someone else. This type of employment will require that you manage yourself and may involve managing other people as well. Thus, an understanding of management is equally important whether you are a manager in someone else's business or running your own.

With \$25 in allowance savings, Matt Hill started Lawn Troopers at the age of nine. Now an engineering graduate, Matt's lawn care business has forty employees and has expanded to snow and waste removal. In 2014 he won Youth Entrepreneur of the Year at the Small Business Achievement Awards. One big perk of winning the award—Kevin O'Leary, formerly of CBC's *Dragon's Den*, will serve as his mentor.

There are numerous factors that allow an entrepreneur to be successful. Personal traits such as optimism and dedication are high on the list. For Matt, his path was forged from the outset as a result of determination and hard work. While building his business, he paid for his education out of company profits and completed his degree at Queen's University. Entrepreneurs need access to capital—human, financial, and technological. They need a solid business plan with the right partners. Timing and luck always play a part, but there is no substitute for hard work and "sweat equity."

In this supplement, we're going to look at the activities engaged in by entrepreneurs like Matt Hill. We'll start by looking at the context of entrepreneurship and then examining entrepreneurship from the perspective of the four managerial functions: planning, organizing, leading, and controlling. Running a business like Lawn Troopers requires Matt to use each of the functions. Matt has to create a detailed action *plan* aimed at achieving some organizational goal. For example, when Matt wanted to increase sales during the winter months when lawn care business was slow, he added snow removal to his list of services. Matt may have spent time mapping out the necessary steps needed to increase his customer base. Perhaps it involved increasing advertisements in a particular region or contacting prior customers to see if they were interested in purchasing more services. Matt also began a new business, Scooper Troopers, using a revolutionary dog waste collection technology.

Once a plan is in place, Matt has to get busy getting *organized*. He has to allocate resources to any new business venture. He needs to identify different roles and ensure that he assigns the right number of employees (and perhaps hire more) to carry out the new venture. He then needs to delegate authority, create job descriptions, and provide direction so that his team of sales representatives can work toward higher sales numbers without having barriers in their way. As his two businesses grow, Matt spends more time connecting with his employees on an interpersonal level. He is no longer simply managing the tasks of his employees; he *leads* them. Not all managers can be effective leaders, but Matt is good at communicating, motivating, inspiring, and encouraging his employees to achieve greater productivity. With a plan in place, Matt decided to explore a pilot project of Scooper Troopers prior to launching it fully. This



Lawn Troopers

Matt Hill, pictured with former star of *Dragon's Den* Kevin O'Leary, accepts the Youth Entrepreneur of the Year Award in 2014.

gave him a chance to evaluate his results against his goals. In doing so, Matt exercised *control* over the business. He took corrective actions to work toward his goal of creating another successful business.

What Do Entrepreneurs Do?

Describing what entrepreneurs do isn't an easy or simple task! No two entrepreneurs' work activities are exactly alike. In a general sense, entrepreneurs create something new, something different. They search for change, respond to it, and exploit it.

Initially, an entrepreneur is engaged in assessing the potential for the entrepreneurial venture and then dealing with startup issues. In exploring the entrepreneurial context, entrepreneurs gather information, identify potential opportunities, and pinpoint possible competitive advantage(s). Then, armed with this information, an entrepreneur researches the venture's feasibility—uncovering business ideas, looking at competitors, and exploring financing options.

After looking at the potential of the proposed venture and assessing the likelihood of pursuing it successfully, an entrepreneur proceeds to plan the venture. This process includes such activities as developing a viable organizational mission, exploring organizational culture issues, and creating a well-thought-out business plan. Once these planning issues have been resolved, the entrepreneur must look at organizing the venture, which involves choosing a legal form of business organization, addressing other legal issues such as patent or copyright searches, and coming up with an appropriate organizational design for structuring how work is going to be done.

Only after these startup activities have been completed is the entrepreneur ready to actually launch the venture. A launch involves setting goals and strategies and establishing the technology–operations methods, marketing plans, information systems, financial–accounting systems, and cash flow management systems.

Once the entrepreneurial venture is up and running, the entrepreneur's attention switches to managing it. What's involved with actually managing the entrepreneurial venture? An important activity is managing the various processes that are part of every business: making decisions, establishing action plans, analyzing external and internal environments, measuring and evaluating performance, and making needed changes. Also, the entrepreneur must perform activities associated with managing people, including selecting and hiring, appraising and training, motivating, managing conflict, delegating tasks, and being an effective leader. Finally, the entrepreneur must manage the venture's growth, including such activities as developing and designing growth strategies, dealing with crises, exploring various avenues for financing growth, placing a value on the venture, and perhaps even eventually exiting the venture.

What Planning Do Entrepreneurs Need to Do?

Planning is important to entrepreneurial ventures. Once a venture's feasibility has been thoroughly researched, an entrepreneur then must look at planning the venture. The most important thing that an entrepreneur does in planning the venture is developing a *business plan*—a written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited. A written business plan can range from basic to thorough. The most basic type of business plan would simply include an *executive summary*, sort of a mini-business plan that's no longer than two pages. A *synopsis* type of plan is a little more involved. It's been described as an "executive summary on steroids." In addition to the executive summary, it includes a business proposal that explains why the idea is relevant to

potential investors. A *summary business plan* includes an executive summary and a page or so of explanation of each of the key components of a business plan. A *full business plan* is the traditional business plan, which we describe fully next. Finally, an *operational business plan* is the most detailed (fifty or more pages) and is used by ventures already operating with an existing strategy. It's often used to "plan the business" but also can be used to raise additional money or to attract potential acquirers. It's important for entrepreneurs to know which type of business plan they need for their purposes.

What's in a Full Business Plan?

For many would-be entrepreneurs, developing and writing a business plan seems like a daunting task. However, a good business plan is valuable. It pulls together all the elements of the entrepreneur's vision into a single coherent document. The business plan requires careful planning and creative thinking. But if done well, it can be a convincing document that serves many functions. It serves as a blueprint and road map for operating the business. And the business plan is a "living" document, guiding organizational decisions and actions throughout the life of the business, not just in the startup stage.

If an entrepreneur has completed a feasibility study, much of the information included in it becomes the basis for the business plan. A good business plan covers six major areas: executive summary, analysis of opportunity, analysis of the context, description of the business, financial data and projections, and supporting documentation.

EXECUTIVE SUMMARY The executive summary is a synopsis of the key points that the entrepreneur wants to make about the proposed entrepreneurial venture. These might include a brief mission statement; primary goals; brief history of the entrepreneurial venture, maybe in the form of a timeline; key people involved in the venture; nature of the business; concise product or service descriptions; brief explanations of market niche, competitors, and competitive advantage; proposed strategies; and selected key financial information.

ANALYSIS OF OPPORTUNITY An analysis of opportunity details the perceived favourable circumstance in a specific industry and market. This includes (1) sizing up the market by describing the demographics of the target market, (2) describing and evaluating industry trends, and (3) identifying and evaluating competitors.

ANALYSIS OF THE CONTEXT An analysis of the context describes the broad external changes and trends taking place in the economic, political–legal, technological, and global environments.

DESCRIPTION OF THE BUSINESS The description of the business outlines how the entrepreneurial venture is going to be organized, launched, and managed. It includes a thorough description of the mission statement; a description of the desired organizational culture; marketing plans including overall marketing strategy, pricing, sales tactics, service–warranty policies, and advertising and promotion tactics; product development plans such as an explanation of development status, tasks, difficulties and risks, and anticipated costs; operational plans, including a description of proposed geographic location, facilities and needed improvements, equipment, and work flow; human resource plans, including a description of key management persons, composition of board of directors including their background experience and skills, current and future staffing needs, compensation and benefits, and training needs; and an overall schedule and timetable of events.

FINANCIAL DATA AND PROJECTIONS Financial data and projections should cover at least three years of projections and contain projected income statements, pro forma cash flow analysis (monthly for the first year and quarterly for the next two), pro forma balance sheets, breakeven analysis, and cost controls. If major equipment or other capital purchases are expected, the items, costs, and available collateral should

be listed. All financial projections and analyses should include explanatory notes, especially where the data seem contradictory or questionable.

SUPPORTING DOCUMENTATION Supporting documentation is an important component of an effective business plan. The entrepreneur should back up his or her descriptions with charts, graphs, tables, photographs, or other visual tools. In addition, it might be important to include information (personal and work-related) about the key participants in the entrepreneurial venture.

Components of a Good Business Plan

Just as the idea for an entrepreneurial venture takes time to germinate, so does the writing of a good business plan. It's important for an entrepreneur to put serious thought and consideration into the plan. It's not an easy thing to do. However, the resulting document should be valuable in current and future planning efforts.

What Issues Are Involved in Organizing an Entrepreneurial Venture?

Once the startup and planning issues for the entrepreneurial venture have been addressed, the entrepreneur is ready to begin organizing the entrepreneurial venture. The main organizing issues an entrepreneur must address include the legal forms of organization, organizational design and structure, and human resource management.

What Are the Legal Forms of Organization for Entrepreneurial Ventures?

The first organizing decision that an entrepreneur must make is a critical one. It's the form of legal ownership for the venture. The two primary factors affecting this decision are taxes and legal liability. An entrepreneur wants to minimize the impact of both of these factors. The right choice can protect the entrepreneur from legal liability as well as save tax dollars, in both the short run and the long run.

The three basic ways to organize an entrepreneurial venture are sole proprietorship, partnership, and corporation. However, other options exist, such as limited liability partnerships and professional corporations. Each has its own tax consequences, liability issues, and pros and cons.

The decision regarding the legal form of organization is important because it has significant tax and liability consequences. Although the legal form of organization can be changed, it's not easy to do. An entrepreneur needs to think carefully about what's important, especially in the areas of flexibility, taxes, and amount of personal liability, in choosing the best form of organization.

What Type of Organizational Structure Should Entrepreneurial Ventures Use?

The choice of an appropriate organizational structure is also an important decision when organizing an entrepreneurial venture. At some point, successful entrepreneurs find that they can't do everything. They need people. The entrepreneur must then decide on the most appropriate structural arrangement for effectively and efficiently carrying out the organization's activities. Without a suitable type of organizational structure, an entrepreneurial venture may soon find itself in a chaotic situation.

In many small firms, the organizational structure tends to evolve with very little intentional and deliberate planning by the entrepreneur. For the most part, the structure may be very simple—one person does whatever is needed. As an entrepreneurial venture grows and the entrepreneur finds it increasingly difficult to go it alone, employees are brought on board to perform certain functions or duties that the entrepreneur can't handle. As the company continues to grow, these individuals tend to perform those same functions. Soon, each functional area may require managers and employees.

As the venture evolves to a more deliberate structure, an entrepreneur faces a whole new set of challenges. All of a sudden, he or she must share decision making and operating responsibilities, which are typically the most difficult things for an entrepreneur to do—letting go and allowing someone else to make decisions. *After all*, he or she reasons, *how can anyone know this business as well as I do?* Also, what might have been a fairly informal, loose, and flexible atmosphere that worked well when the organization was small may no longer be effective. Many entrepreneurs are greatly concerned about keeping that “small company” atmosphere alive even as the venture grows and evolves into a more structured arrangement. But having a structured organization doesn't necessarily mean giving up flexibility, adaptability, and freedom. In fact, the structural design may be as fluid as the entrepreneur feels comfortable with and yet still have the rigidity it needs to operate efficiently.

Organizational design decisions in entrepreneurial ventures also revolve around the six elements of organizational structure discussed in Chapter 5: work specialization, departmentalization, chain of command, span of control, amount of centralization-decentralization, and amount of formalization. Decisions about these elements will determine whether an entrepreneur designs a more mechanistic or organic organizational structure. When would each be preferable? A mechanistic structure would be preferable when cost efficiencies are critical to the venture's competitive advantage, when more control over employees' work activities is important, if the venture produces standardized products in a routine fashion, and when the external environment is relatively stable and certain. An organic structure would be most appropriate when innovation is critical to the organization's competitive advantage; for smaller organizations where rigid approaches to dividing and coordinating work aren't necessary; if the organization produces customized products in a flexible setting; and where the external environment is dynamic, complex, and uncertain.

What Human Resource Management (HRM) Issues Do Entrepreneurs Face?

As an entrepreneurial venture grows, additional employees must be hired to perform the increased workload. As employees are brought on board, two HRM issues of particular importance are employee recruitment and employee retention.

An entrepreneur wants to ensure that the venture has the people to do the required work. Recruiting new employees is one of the biggest challenges that entrepreneurs face. In fact, the ability of small firms to successfully recruit appropriate employees is consistently rated as one of the most important factors influencing organizational success.

Entrepreneurs, particularly, look for high-potential people who can perform multiple roles during various stages of venture growth. They look for individuals who “buy into” the venture's entrepreneurial culture—individuals who have a passion for the business. Unlike their corporate counterparts who often focus on filling a job by matching a person to the job requirements, entrepreneurs look to fill in critical skills gaps. They're looking for people who are exceptionally capable and self-motivated, flexible, multiskilled, and who can help grow the entrepreneurial venture. While corporate managers tend to focus on using traditional HRM practices and techniques, entrepreneurs