The Changing Face of Business

LEARNING OBJECTIVES

LO 1.1 Define business.
LO 1.2 Identify and describe the factors of production.
LO 1.3 Describe the private enterprise system.
LO 1.4 Identify the seven eras in the history of business.
LO 1.5 Explain current workforce trends in business.
LO 1.6 Identify the skills and attributes needed for today’s manager.
LO 1.7 Outline the characteristics that make a company admired.

Industry Insider

Sundar Pichai, Chief Executive Officer
Company: Google
Industry: Technology/Internet information providers
Website(s): www.google.com and https://abc.xyz

Larry Page, co-founder of Google, made a surprise move by appointing protege and product guru Sundar Pichai as his successor. Pichai, displayed in the photo, was most recently a senior vice president of products, overseeing Google’s increasingly competitive business offerings such as search, advertising, Android, and YouTube. The announcement came on the heels of a company-wide reorganization, which separated Google’s profitable maps, search, and advertising businesses from its other projects.

Pichai’s appointment as Google’s CEO frees up Page and co-founder Sergey Brin to spend more time on technology-related projects. The restructuring places Google into part of a collection of companies with the new name, Alphabet, Inc., in which Page assumed the role of CEO.

Who is Sundar Pichai, and how has he ascended through the Google ranks so quickly? After earning an advanced business degree, Pichai worked for a semiconductor manufacturing company and a management consulting firm. When Pichai arrived at Google in 2004, he was charged with creating and managing some of the company’s strongest client software products, including Google Chrome, the Chrome OS, and cloud file-storage service Google Drive.

Pichai, who grew up in Chennai, India, is known for his unassuming management style, which has allowed him to build strong relationships throughout the organization. He is described as humble, smart, and very low key. With training as an engineer and businessperson, Pichai, who is in his 40s, is uniquely positioned to take the lead in product development at Google.
Chapter 1 Overview

Google’s CEO, Sundar Pichai, leads a company that has gone from clever startup to global powerhouse. Innovative companies like Google, and now Alphabet, contribute greatly to the global economy that Canada participates in. Business is a nation’s engine for economic growth and prosperity. A growing economy is one that produces more goods and services over time. Growing economies are important because they yield more income for business owners, their employees, and governments in the form of tax payments. A country depends on the wealth its businesses generate, from large enterprises like Bell Canada Enterprises and powerhouses like the Royal Bank of Canada to new startups that are just beginning. These companies and many others share a creative approach to meeting society’s needs and wants while generating the wealth we enjoy.

Businesses solve our transportation problems by marketing cars, tires, gasoline, and airline tickets. They bring food to our tables by growing, harvesting, processing, packaging, and shipping everything from spring water to frozen shrimp. Restaurants buy, prepare, and serve food, and some even deliver. Construction companies build our schools, homes, and hospitals, while real estate firms bring property buyers and sellers together. Clothing manufacturers design, create, import, and deliver our jeans, sports shoes, work uniforms, and party wear. Hundreds of firms work at entertaining us during our leisure hours. They create, produce, and distribute films, television shows, video games, books, and music.

To succeed, businesses must know what their customers want, and they must supply it quickly and efficiently. The products that firms produce often reflect changes in consumer tastes, such as the growing preference for sports drinks and vitamin-fortified water. But firms can also lead by promoting technology and other changes. Firms organize the resources, the know-how, and the financial incentive to bring about real innovations, such as smartphones, new cancer treatments, and alternative energy sources like wind power. Thus, when businesses succeed, everybody wins.

You'll see throughout this book that businesses require physical inputs such as auto parts, chemicals, sugar, thread, and electricity. They also need the accumulated knowledge and experience of their managers and employees. Businesses also rely heavily on their own ability to change with the times and with the marketplace. Flexibility is a key to long-term success—and to growth.

Business is a leading force in our economy—and Contemporary Business is right there with it. This book explores the strategies that allow companies to grow and compete in today’s interactive marketplace. This book also explores the skills you will need to turn ideas into action for your own success in business. This chapter sets the stage for the entire text by defining what business is and describing its role in society. The chapter’s discussion illustrates how the private enterprise system encourages competition and innovation while preserving business ethics.

1.1 What is Business?

LEARNING OBJECTIVE 1.1

Define business.

What do you think of when you hear the word business? Do you think of big corporations like Rogers Communications or TD Bank? Or do you think about your local bakery or shoe store? Maybe you recall your first summer job. Business is a broad, all-inclusive term that can be applied to many kinds of enterprises. Businesses provide most of our job opportunities and most of the products that we enjoy every day.
Business consists of all profit-seeking activities and enterprises that provide goods and services necessary to an economic system. Some businesses produce tangible goods, such as automobiles, breakfast cereals, and smartphones; others provide services, such as insurance, hair styling, and entertainment, ranging from theme parks and sports events to concerts.

Business drives the economic pulse of a nation. It provides the means for improving a nation’s standard of living. At the heart of every business is an exchange between a buyer and a seller. A buyer has a need for a good or service and trades money with a seller to receive that product or service. The seller hopes to gain a profit—a main indicator of business success and what continuously improves society’s standard of living.

Profits are rewards for businesspeople who take the risks involved in blending people, technology, and information to create and market want-satisfying goods and services. In contrast, accountants think of profits as the difference between a firm’s revenues and the expenses it incurs in generating these revenues. More generally, however, profits serve as incentives for people to start companies, expand them, and provide consistently high-quality competitive goods and services. Profits are also a primary source of funds needed to expand operations.

The quest for profits is a central focus of business: without profits, a company could not survive or provide financing for its future growth needs. But businesspeople also recognize their social and ethical responsibilities. To succeed in the long run, companies must deal responsibly with employees, customers, suppliers, competitors, government, and the general public. As we will see in the chapters that follow, managers develop strategies to achieve specific goals that will lead to profit. To reach targeted profits, management strategic thinking may focus on keeping business costs as low as possible to pass savings on to customers (Walmart’s everyday low prices), providing a specialized product or service (Schwartz’s Montreal smoked meat deli), or concentrating on only a part of the larger marketplace (IKEA’s knock-down furniture).

Not-for-Profit Organizations

What is a common feature of Simon Fraser University’s athletic department, the Canadian Society for the Prevention of Cruelty to Animals, the Canadian Red Cross, and your local library? They are all not-for-profit organizations, business-like establishments that have primary goals other than returning profits to their owners. These organizations play important roles in society by placing public service above profits. It is important to understand that these organizations need to raise money to operate and to achieve their social goals. Not-for-profit organizations operate in both the private and public sectors. Private sector not-for-profits include museums, libraries, trade associations, and charitable and religious organizations. Government agencies, political parties, and labour unions are not-for-profit organizations that are part of the public sector.

Not-for-profit organizations form a large part of the Canadian economy. The not-for-profit field is an industry just like any other industry: Revenues are raised and employees earn incomes by providing services. Canada has more than 160,000 registered not-for-profit organizations in categories ranging from arts and culture to science and technology. Most are local organizations that provide sports and recreational activities. Not-for-profits receive funding from both government sources and private sources, including donations. These organizations are commonly exempt from federal, provincial, and local taxes. Not-for-profits raise more than $112 billion in revenues each year and employ more than 2 million people. Approximately one-third of these jobs are in hospitals, universities, and colleges. About half of all revenue comes from government grants, mostly provincial. These organizations also receive more than $8 billion in donations from individuals and require more than 2 billion volunteer hours, the equivalent of more than 1 million full-time jobs.

Managers of not-for-profit organizations focus on goals other than making profits, but they face many of the same challenges as executives of for-profit businesses. Without funding, organizations cannot do research, obtain raw materials, or provide services. Take Toronto’s Hospital for Sick Children (SickKids) as an example. It is Canada’s leading centre dedicated to children’s health and one of the world’s top health care institutions for children. It requires an overall operating budget approaching $1 billion and is staffed by over 10,000 staff and volunteers. It is one of Canada’s most research-intensive hospitals: Its more than 735 staff researchers operate within a $193-million budget.
Other not-for-profits organize resources to respond to emergencies. For example, the Canadian Red Cross helped manage the largest fire evacuation in Alberta history in 2016 as raging forest fires forced more than 88,000 residents from the Fort McMurray area (see photo). The Red Cross collected over $30 million in donations, which were matched by the Canadian government, along with donated materials from across the country.6

Some not-for-profits sell merchandise or set up profit-making side businesses to sell goods and services that people are willing and able to pay for. For example, college and university bookstores sell products with the school logo—everything from sweatshirts to coffee mugs. SickKids supports learning for families and health care providers by selling parenting books, many of which are Canadian bestsellers.5 The Livestrong Foundation, formerly the Lance Armstrong Foundation, has sold more than 40 million yellow Livestrong wristbands. It also sells sports gear and accessories for men, women, and children. All funds raised through these sales are used to fight cancer and support patients and their families.6

Merchandising programs and fundraising campaigns need managers who have effective business skills and experience. As a result, many of the concepts discussed in this book apply both to not-for-profit organizations and to for-profit firms.

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**Assessment Check**

1.1.1 What activity lies at the heart of every business endeavour?

1.1.2 What are the primary objectives of a not-for-profit organization?

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**1.2 Factors of Production**

**LEARNING OBJECTIVE 1.2**

Identify and describe the factors of production.

An economic system requires certain inputs to operate successfully. An economy of a city, province, or country lacking or deficient in these inputs will be unable to reach its full potential. A primary responsibility of governments is to facilitate economic activity by encouraging the development of these inputs. Economists use the term **factors of production** to refer to the four basic inputs: natural resources, capital, human resources, and entrepreneurship. Table 1.1 identifies each of these inputs and gives examples of the types of payment received by firms and individuals who supply them.

**Natural resources** include all production inputs that are useful in their natural states, including agricultural land, building sites, forests, and mineral deposits. Calgary-based Encana Corporation is a leading Canadian developer of natural gas supply in North America. Toronto-based Barrick Gold Corporation is the global gold industry leader. Its 25 operating mines and projects are located on five continents and include African Barrick Gold. Mining companies generally pay landowners for the right to extract minerals. Farmers expand their operations by paying rent for the right to grow more crops on a neighbour’s land. Natural resources are the basic inputs required in any economic system and are the genesis of wealth...
creation. Places in the world with valuable natural resources have an economic advantage in developing more wealth, whereas those without natural resources will have to acquire them.

Capital, another key resource, includes technology, tools, information, and physical facilities. Technology is such machinery and equipment as computers and software, telecommunications, and inventions designed to improve production. Information, which is frequently improved by technological innovations, is another critical factor. Both managers and employees require accurate, timely information to effectively perform their assigned tasks. Technology plays an important role in the success of many businesses. Technology can lead to a new product, such as lithium battery-powered electric cars from Tesla and other global manufacturers. As a result, there is a growing demand for raw materials such as lithium hydroxide and lithium carbonate mined by Canadian companies like Nemaska Lithium Inc., primarily in northern Quebec.7

Technology often helps a company improve its own products. Netflix, once famous for its subscription-based DVD-by-mail service, now streams on-demand media. Netflix has exclusive rights to streaming movies and original TV shows like its globally popular blockbuster Stranger Things and pays for the rights to distribute content produced by others to its subscribers. Like YouTube, Netflix is a company disrupting the old business method of distributing digital entertainment.8

Technology can also help a company operate more smoothly by tracking deliveries, providing more efficient communication, analyzing data, or training employees. Canada Post cut costs by expanding the electronic side of its business. Customers can now track their own registered mail online.

To remain competitive, a firm needs to continually acquire, maintain, and upgrade its capital. All these activities need money. A company’s funds may come from the owner’s investments, profits that are turned back into the business, or loans from others. Money is used to build factories; purchase raw materials and component parts; and to hire, train, and pay employees. People and firms that supply (lend) capital receive factor payments in the form of interest.

Human resources represent another important input in every economic system. Human resources include anyone who works, from the chief executive officer (CEO) of a huge corporation to a self-employed editor. Their input includes both physical labour and intellectual effort. Companies rely on their employees’ ideas, innovation, and physical effort. Some companies ask for employee ideas through traditional means, such as through staff meetings and by setting up an online “suggestion box.” Others encourage creative thinking during company-sponsored events, such as hiking or rafting trips, or during social gatherings. Effective, well-trained human resources can provide firms with a significant competitive edge. Competitors cannot easily match another company’s talented, motivated employees in the same way they can buy the same computer system or purchase the same grade of natural resources.

Hiring and keeping the right people matters. Competent, effective human resources can be a company’s best asset. Providing perks to those employees to keep them is often in a company’s best interest.

Entrepreneurship is the willingness to take risks to create and operate a business. An entrepreneur is someone who sees an opportunity to make a profit and creates a plan to earn those profits and achieve success. Montreal-based Beyond the Rack is a private online shopping club for women and men. Authentic designer merchandise is offered at deeply discounted sale prices to members through limited-time events. Each event starts at a specific time and typically lasts only 48 hours. After each event ends, the merchandise is no longer available. Members are notified by email in advance of each event that matches their preferences. Beyond the Rack’s customer base has grown internationally to more than 15 million members, and it is recognized as an industry leader in the emerging field of online marketing.9

TABLE 1.1 Factors of Production and Their Factor Payments

<table>
<thead>
<tr>
<th>Factor of Production</th>
<th>Corresponding Factor Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural resources</td>
<td>Rent for land leased for operations</td>
</tr>
<tr>
<td>Capital</td>
<td>Interest for money used to acquire capital items</td>
</tr>
<tr>
<td>Human resources</td>
<td>Wages for employees</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>Profit for starting and managing operations</td>
</tr>
</tbody>
</table>
Canadian businesses operate within an economic system called the *private enterprise system*. The next section looks at the private enterprise system, including competition, private property, and the entrepreneurship alternative.

**Assessment Check**

1.2.1 Identify the four basic inputs to an economic system.
1.2.2 List four types of capital.

### 1.3 The Private Enterprise System

**LEARNING OBJECTIVE 1.3**

Describe the private enterprise system.

No business operates completely freely and on its own. All businesses operate within a larger economic system of rules and constraints that directs how goods and services are produced, distributed, and consumed. The type of economic system used in a society also affects the patterns of resource use. Some economic systems enforce strict controls on business ownership, profits, and resources whereas others, like Canada’s, offer more freedoms to individuals.

In Canada, businesses function within the *private enterprise system*, an economic system that rewards firms for their ability to identify and serve the needs and demands of customers. The private enterprise system minimizes government interference in business activity. Businesses that are skillful at satisfying customers are able to gain access to the necessary factors of production and earn profits. Success primarily depends on the businesspeople involved.

Another name for the private enterprise system is *capitalism*. The Scottish economist Adam Smith, often called the father of capitalism, first described the concept of capitalism in his book *The Wealth of Nations*, published in 1776. Smith believed that an economy is best regulated by the “invisible hand” of *competition*, which is the battle among businesses for consumer acceptance. Smith thought that competition among firms would lead to consumers receiving the best possible products and prices because less efficient producers would gradually be driven from the marketplace.

The idea of the “invisible hand” is a basic principle of the private enterprise system. In Canada, competition shapes much of economic life. To compete successfully, each firm must find a basis for its *competitive differentiation*, the unique combination of organizational abilities, products, and approaches that sets one company apart from its competitors in the minds of customers. Businesses in a private enterprise system must keep up with changing marketplace conditions. Firms that fail to adjust to shifts in consumer preferences and firms that ignore their competitors risk failure. See the “Business & Technology” feature to learn more about how Nordstrom sets itself apart from the competition.

Our discussion in this book focuses on the tools and methods that today’s businesses use to compete and differentiate their goods and services. We also discuss many of the ways that market changes will affect business and the private enterprise system in the future.

### Basic Rights in the Private Enterprise System

For capitalism to operate effectively, the citizens of a private enterprise economy must have certain rights. As shown in Figure 1.1, these include the rights to private property, profits, freedom of choice, and competition.
The right to **private property** is the most basic freedom in the private enterprise system. Every participant has the right to own, use, buy, sell, and hand down most forms of property, including land, buildings, machinery, equipment, patents on inventions, individual possessions, and intangible properties.

The private enterprise system also guarantees business owners the right to all after-tax profits they earn through their activities. Although a business is not assured of earning a profit, its owner is legally and ethically entitled to any income it makes that is greater than its costs.

Freedom of choice means that a private enterprise system relies on citizens to choose their own employment, purchases, and investments. They can change jobs, discuss and agree on wages, join labour unions, and choose among many different brands of goods and services. People living in the capitalist nations of North America, Europe, and other parts of the world are so conditioned to having this freedom of choice that they sometimes forget how important it is. A private enterprise economy maximizes individual wealth by providing options. Other economic systems sometimes limit the freedom of choice to accomplish government goals, such as by increasing industrial production of certain items or by military strength.

The private enterprise system also allows fair competition by allowing the public to set the rules for competitive activity. For this reason, the Canadian government has passed laws to prohibit excessively aggressive competitive practices designed to remove the competition. The Canadian government has established ground rules that make the following illegal: price discrimination, fraud in financial markets, and deceptive advertising and packaging.

However, regulating behaviour is not a simple matter where all parties can be satisfied with decisions made by government. For example, in recent years, the Canadian Radio-television and Telecommunications Commission (CRTC)
issued a decision that increased the costs charged to small Internet service providers (ISPs) that buy access to the larger ISP networks of Bell and Bell Aliant, mainly in Ontario and Quebec. The CRTC allowed the larger ISPs to control network traffic, especially high-volume traffic, to the smaller ISPs. The CRTC also began charging “usage-based billing.” The smaller ISPs, which sold popular unlimited packages before, were forced to introduce limits, charge more for bandwidth, and change their infrastructure strategy. These changes ended their competitive advantage over the bigger ISPs, which typically charge more for high-volume users. After much complaining from the smaller ISP customers, a compromise pricing model was introduced. The new pricing model limits usage but still allows the smaller ISPs to offer unlimited usage packages to those customers that demanded them. This marketplace is further complicated as demand for more and unlimited data from mobile users grows. Many Canadians wonder why costs have not fallen as much as in the United States and elsewhere. One research firm believed that the Canadian wireless data market would be worth more than $16 billion by 2021—a very big pie that undoubtedly will be fought over only by Canadian suppliers, as foreign firms are prevented from competing by Canadian government regulations.10

The Entrepreneurship Alternative

The entrepreneurial spirit beats at the heart of private enterprise. An entrepreneur is a risk taker in the private enterprise system. You hear about entrepreneurs all the time—two university students starting a software business in their dorm room, or a mom who invents a better baby carrier. Many times their success is modest, but once in a while the risk pays off in huge profits. People who can see marketplace opportunities are able to use their capital, time, and talents to pursue those opportunities for profit. The willingness of people to start new ventures leads to economic growth and keeps pressure on existing companies to continue to satisfy customers. If no one were willing to take economic risks, the private enterprise system wouldn’t exist.

The entrepreneurial spirit leads to growth in the Canadian economy. Of all new businesses created in Canada, 99 percent are small businesses. In a recent year almost 80,000 new businesses were started and about the same number failed. There are about 1.1 million small business in Canada—about 98 percent of all businesses. The Canadian economy depends on small businesses for its growth and strength. As one individual can rarely operate entirely alone, employees are hired to help the entrepreneur succeed. Over 8 million people representing over 70 percent of the labour force work for small businesses. Statistics Canada data suggest that 54 percent of all businesses have fewer than five employees, and 86 percent employ fewer than 20. The small-business sector creates 80 percent of all new jobs and generates 45 percent of Canada’s economic output.11

So where are the jobs in Canada? Figure 1.2 shows that the most employment is in the wholesale and retail trade at 2,459,600 employees, followed by manufacturing at 1,641,000. Notice that small businesses are major employers in these and other segments.12

Entrepreneurship creates jobs and sells products. Entrepreneurship also leads to innovation. In contrast to more established firms, startup companies tend to innovate in fields of technology that are

entrepreneur a person who seeks a profitable opportunity and takes the necessary risks to set up and operate a business.
new and have few competitors. Because small companies are more flexible than large ones, they can change their products and processes more quickly. Entrepreneurs often find new ways to use natural resources, technology, and other factors of production. Often they find these new ways because they have to—they may not have enough money to build an expensive prototype or launch a nationwide ad campaign. Sometimes, entrepreneurs will locate near one another and form a hub of like-minded businesses that continues to attract newcomers. The Toronto-Waterloo corridor is Canada’s largest technology hub, stretching about 100 kilometres. Within the corridor are more than 200,000 employees working for about 15,000 tech companies, 5,000 of which are recent startups.\footnote{13}

Entrepreneurship is also important to existing companies. More and more, large firms are realizing the value of entrepreneurial thinking among their employees. These companies hope to benefit from enhanced flexibility, improved innovation, and new market opportunities. Apple also reaches out to its customers by inviting entrepreneurs of all kinds to develop applications for the iPhone. If the new apps are successful, then Apple profits from those efforts. Already, the iPhone has more than a million different applications, including some developed by Apple. Together, all the apps have been downloaded billions of times.\footnote{14} Introduction of the Apple Watch and other wearable technologies has generated a new wave of opportunities for app developers.

As the next section explains, entrepreneurs have played a vital role in the history of Canadian business. They have helped create new industries, developed successful new business methods, and improved Canadian standing in global competition.

Assessment Check

1.3.1 What is an alternative term for the private enterprise system?
1.3.2 What is the most basic freedom under the private enterprise system?
1.3.3 What is an entrepreneur?

1.4 Seven Eras in the History of Business

LEARNING OBJECTIVE 1.4

Identify the seven eras in the history of business.

In the 400 or so years since the first Europeans settled on the North American continent, amazing changes have occurred in the size, focus, and goals of Canadian businesses. North American business history is divided into seven distinct time periods: (1) the colonial period, (2) the Industrial Revolution, (3) the age of industrial entrepreneurs, (4) the production era, (5) the marketing era, (6) the relationship era, and (7) the social era. The next sections describe how events in each of these time periods have influenced business practices.

The Colonial Period

Colonial society featured rural and agricultural production. Colonial towns were small compared with European cities, and they functioned as marketplaces for farmers and craftsmen. The economic focus of North America centred on rural areas because success depended on the output of farms. The success or failure of crops influenced every aspect of the economy.

Colonists depended on Europe for manufactured items and for financial help for their infant industries. Surprising to some, even after the American Revolutionary War (1775–1783), the United States maintained close economic ties with England. The Canadian experience is more
understandable. In Canada, British investors continued to provide much of the money needed for developing the North American business system. Trade focused on the abundant resources available in North America, such as furs, fish, and old stock large timber for ship and house building in Europe. This financial influence continued well into the nineteenth century and spurred exploration of the continent as traders sought more resource riches to export back to Europe.

The Industrial Revolution

The Industrial Revolution began in England around 1750. It changed how businesses operated. Instead of a focus on independent, skilled workers who specialized in building products one by one, businesses moved to a factory system that mass produced items by using numerous semi-skilled workers. The factories made profit from the savings created by large-scale production and by increasing their use of machines. As businesses grew, they could often purchase raw materials more cheaply in larger lots. Production was also improved by specialization of labour, such as by limiting each worker to a few specific tasks in the production process.

Because of these events in England, Canadian businesses also began a time of rapid industrialization. Agriculture became mechanized, and factories set up in cities. During the mid-1800s, the pace of the revolution increased as newly built railroad systems provided fast, economical transportation. The railroads opened up the West and transported people and the agricultural products they grew, the timber they felled, and the furs they trapped to markets back east and on to Europe.

The Age of Industrial Entrepreneurs

The Industrial Revolution created opportunities, and those opportunities increased entrepreneurship in Canada.

Inventors created new production methods and a virtually endless number of commercially useful products. Many of these products are famous today: Alexander Graham Bell, his father, Melville, and friend Reverend Thomas Henderson started basic short-distance telephone service between office buildings and warehouses in 1877 (see photo). The company later became Bell Canada Inc.

In the United States, Eli Whitney introduced the idea of interchangeable parts, which later led the way to mass production on a previously impossible scale. The entrepreneurial spirit of this golden age in business advanced the Canadian business system and increased the overall standard of living for Canadians. That market transformation, in turn, created new demand for manufactured goods.

The Production Era

Demand for manufactured goods continued to increase in the 1920s. Businesses focused even more attention on the activities needed to produce those
goods. Work became more specialized, and huge, labour-intensive factories were common in North America. Henry Ford started using assembly lines, which later became commonplace in major industries. Business owners turned over their responsibilities to a new group of managers who had been trained in operating companies. These new managers were able to produce even more goods by using quicker methods.

During the production era, businesses focused their attention on internal processes instead of external influences. Marketing was rare and was used only to distribute a business’s products. Little attention was paid to what the consumer wanted or needed. Instead, businesses decided what products were available to purchase. If you wanted to buy a Ford Model T automobile, your choice was black—the only colour the company made.

The Marketing Era

The Great Depression of the early 1930s changed Canadian businesses yet again. When most people’s incomes dropped, businesses could no longer count on selling everything they produced. Managers began to pay more attention to the markets for their goods and services, and sales and advertising became important activities. During this period, selling often meant the same as marketing.

After World War II, demand increased for all kinds of consumer goods. After nearly five years without new automobiles, appliances, and other items, consumers were buying again. At the same time, competition was also increasing. Businesses soon began to think of marketing as more than just selling; managers thought about a process of deciding what consumers wanted and needed first, and then designing products to meet those needs. In short, they developed a consumer orientation.

Businesses began to analyze consumer desires before beginning any production. Consumer choices skyrocketed. Automobiles were sold in a wide variety of colours and styles, and car buyers could choose their favourite colour. Companies also learned how important it was for their goods and services to stand out from those of competitors. Branding is the process of creating in consumers’ minds an identity for a good, service, or company. Branding is an important marketing tool in contemporary business. A brand can be a name, term, sign, symbol, design, or some combination that identifies the products of one firm and shows how they differ from competitors’ offerings.

The Home Depot, the world’s largest home improvement specialty retailer, operates more than 2,200 retail stores in the United States, Canada, Mexico, and China. It also exports products around the world. Its carefully guarded brand name stands for excellent customer service, an entrepreneurial spirit, and the desire to give back to the communities where it operates. The company sells thousands of products, including RIDGID tools, Behr paint, LG appliances, and Toro lawn equipment, as well as many of its own sub-brands.15

The marketing era has had a huge impact on the way business is conducted today. Even the smallest business owners recognize the importance of understanding what customers want and the reasons they buy.

The Relationship Era

In the twenty-first century, a major change is taking place in the ways companies relate with their customers. Since the Industrial Revolution, most businesses have concentrated on building and promoting products in the hope that enough customers will buy the products to cover costs and earn acceptable profits. This approach is called transaction management.

In contrast, in the relationship era businesses are taking a different, longer-term approach to how they relate with customers. Firms now look for ways to actively promote customer loyalty by carefully managing every interaction. These firms earn huge paybacks for their efforts. A company that keeps its customers over the long term reduces its advertising and sales costs. Because customer spending tends to increase over time, the firm’s revenues also grow. Companies with long-term customers often find they no longer need to offer price discounts to attract new business. Instead, they find that many new customers are referred by their loyal customers.

consumer orientation a business philosophy that focuses first on consumers’ unmet wants and needs, and then designs products to meet those needs.

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transaction management building and promoting products in the hope that enough customers will buy them to cover costs and earn profits.

relationship era the business era where firms seek to actively promote customer loyalty by carefully managing every interaction.
Business owners gain several advantages when they develop ongoing relationships with customers. Serving existing customers is less costly than trying to attract new customers. Thus, businesses that develop long-term customer relationships can reduce their overall costs. Long-term relationships with customers mean that businesses can improve their understanding of what customers want and prefer from the company. As a result, these businesses increase their chances of holding on to real advantages through competitive differentiation.

The relationship era is an age of connections—between businesses and customers, employers and employees, technology and manufacturing, and even between separate companies. More and more, the world economy is interconnected as businesses expand beyond their national boundaries. In this new environment, techniques for managing networks of people, businesses, information, and technology are critically important to contemporary business success. See the “Job Description” feature to learn more about what it takes to be a business operations associate in a technology company.

### The Social Era

The **social era** of business can be described as a new approach to the way businesses and individuals interact, connect, communicate, share, and exchange information with each other in virtual communities and networks around the world.

The social era, based on the premise that organizations create value through connections with groups or networks of people with similar goals and interests, offers businesses immense opportunities, particularly through the use of technology and **relationship management**—the collection of activities that build and maintain ongoing, mutually beneficial ties with customers and other parties.

Social media tools and technologies come in various shapes and sizes. They include blogs, podcasts, and microblogs (such as Twitter); social and professional networks (such as Facebook and LinkedIn); picture-sharing platforms (such as Instagram and Tumblr); and content communities (such as YouTube), to name a few.16

As consumers continue to log fewer hours on computers and more time on mobile devices, companies have implemented mobile strategies using real-time data and location-based
technology. Businesses use mobile social media applications to engage in marketing research, communications, sales promotions, loyalty programs, and other processes. In the social era, businesses tailor specific promotions to specific users in specific locations at specific times to build customer loyalty and long-term relationships. For example, Facebook offers free WiFi to users in exchange for checking in at selected retailers, hotels, and restaurants.  

Businesses are also finding that they must form partnerships with other organizations to take full advantage of opportunities—often using social media tools and technologies for communications. One form of partnership between organizations is a strategic alliance, which creates a competitive advantage for the businesses involved.

E-business has created a new type of strategic alliance. A firm whose entire business is conducted online, such as Amazon or Overstock.com, may team up with traditional retailers who have expertise in distribution and in buying the right amount of the right merchandise. Overstock.com is an online-only retailer for bargain hunters looking for discount prices on brand-name consumer goods, including clothing, appliances, electronics, and sporting goods. Overstock.com partners with manufacturers and distributors that gain a new outlet for reducing their inventory; in return, Overstock.com sells more than 2 million different products on its website. Overstock.com earned revenues of more than $1.8 billion in one recent year and received several top customer service awards.

Another way to build relationships is to have your business address some of the issues that your customers care about using social media. For example, environmental concerns now influence consumers’ choices on everything from yogurt and clothing to cars and light bulbs; many observers say the question about “going green” is no longer whether a company should, but how. The need to develop environmentally friendly products and processes is a major new force in business today. Companies in every industry are researching how to save energy, cut emissions and pollution, reduce waste, and of course save money and increase profits (see photo). Endura Energy of Toronto developed large-scale rooftop solar energy systems by working with building owners to capture value from unused roof space and to promote green energy facilitated by the Ontario government’s Feed-in Tariff Program. For example, Endura Energy built a 100-kilowatt rooftop solar power system in Richmond Hill, just north of Toronto. This system now generates approximately 110,000 kilowatt hours of clean energy each year, equivalent to

Companies in every industry are researching how to save energy, cut emissions, reduce waste, and save company money. Clean solar energy is one option that is becoming more common and may soon be easier to set up and more widely available.
reducing approximately 85 tonnes of carbon emissions annually. The owners of the building do not need to contribute financially, which makes it easier to develop more rooftop systems that will contribute to the electric grid. Building on its success, Endura Energy merged with Toronto-based UGE International (www.ugei.com) using Facebook and other social media tools to reach out globally to businesses and consumers interested in building greener solutions. In each new era in business history, managers have had to re-examine their tools and techniques. Tomorrow’s managers will need creativity and vision to stay on top of rapidly changing technology and to manage complex relationships in the global business world of the fast-paced twenty-first century. As green operations become more cost effective, and as consumers and shareholders demand more responsive management, few firms will want to be left behind.

In each new era in business history, managers have had to re-examine their tools and techniques. Tomorrow’s managers will need creativity and vision to stay on top of rapidly changing technology and to manage complex relationships in the global business world of the fast-paced twenty-first century. As green operations become more cost effective, and as consumers and shareholders demand more responsive management, few firms will want to be left behind.

Assessment Check

1.4.1 What was the Industrial Revolution?
1.4.2 During which era was the idea of branding developed?
1.4.2 What is the difference between transaction management and relationship management?

1.5 Current Business Workforce Trends

LEARNING OBJECTIVE 1.5

Explain current workforce trends in business.

A skilled and knowledgeable workforce is an essential resource for keeping pace with the rapid rate of change in today’s business world. Employers need reliable workers who are dedicated to promoting strong ties with customers and partners. Employers need to build workforces that are capable of efficient, high-quality production, which is needed to compete in global markets. Smart business leaders also realize that the brainpower of employees plays a vital role in a firm staying on top of new technologies and innovations. In short, a first-class workforce can be the foundation of a firm’s competitive differentiation, providing important advantages over competing businesses. See how one entrepreneur-turned billionaire is using his wealth to help China breathe easier in the “EcoBiz” feature.

Changes in the Workforce

Companies face several trends that challenge their skills for managing and developing human resources. These challenges include the aging population and a shrinking labour pool, the growing diversity of the workforce, the changing nature of work, the need for flexibility and mobility, and the need to work with others to innovate.

The Aging Population and a Shrinking Labour Pool

As people retire from the workforce, they take their experience and expertise with them. As Figure 1.3 shows, the Canadian population as a whole is aging. Today, though, many of those from the baby boom generation, the huge number of people born between 1946 and 1964, are still hitting the peaks of their careers.
Internet Billionaire Helps China Breathe Easier

Less than two decades ago, Jack Ma founded Alibaba Group in his Hangzhou apartment. Alibaba includes an online payment system, Alipay, and two e-commerce sites, Tmall and Taobao. Valued at $25 billion, Alibaba had the largest ever U.S.-listed initial public offering (IPO) to date—the first sale of stock by a Chinese company to the general public. As a result of its IPO, Alibaba has become far better known in North America. Similarly, the company has been described as the Chinese version of eBay, Amazon, and PayPal combined.

Jack Ma, who is in his 50s, has been called the “godfather of China’s scrappy entrepreneurial spirit.” As the face of China’s new age of entrepreneurs, he commands a cultlike following among the younger Chinese generation. At a speech given upon his retirement as Alibaba’s CEO a few years ago, Ma reminded the audience that business cannot prosper when it continues to be ruined by overdevelopment, which includes China’s hazardous levels of pollution. Recently, he set up a way to give a certain percentage of his wealth to causes related to health care, education, and the environment in China.

Alluding to China’s increased economic prosperity and rising middle class, Ma points out that the dreams of the Chinese people may fade away if the sun cannot be seen. When Ma’s family and friends were diagnosed with lung and liver cancer, he became increasingly concerned about cleaning up China’s air and water. He has committed 2 percent of the value of Alibaba’s stock to help preserve the environment. Many see Ma’s move, the largest of its kind in China, as the beginning of a new era of giving among China’s billionaires.

Questions for Critical Thinking

1. A philanthropist is someone who donates time and money to charitable causes. Why do you think it might be more challenging for philanthropists in China than in Canada?
2. What are some of the issues that can arise in a country experiencing unpredictable economic prosperity among segments of its population?


At the same time, members of so-called Generation X (born from 1965 to 1981) and Generation Y (born from 1982 to 2005) are building their careers. As a result, employers are finding more people from different generations together in the workforce than ever before. This broad age diversity brings management challenges, such as the need to accept a variety of work–life styles, the changing expectations of work, and varying levels of technological expertise. Still, despite the wide range of ages in the workforce today, some economists predict the Canadian labour pool could soon fall short as the baby boomers retire.

Technology has intensified the hiring challenge by requiring workers to have ever-more advanced skills. Although the number of university-educated workers has increased, the demand for these workers is still greater than the supply. Because of these changes, companies are increasingly seeking—and finding—talent at the extreme ends of the working-age spectrum. Teenagers are entering the workforce sooner, and some seniors are working longer—or seeking new careers after retiring from their primary careers. Many older workers work part time or flexible hours. Meanwhile, for those older employees who do retire, employers must look after a variety of retirement planning and disability programs, retraining, and insurance benefits.

Increasingly Diverse Workforce

The Canadian workforce is growing more diverse, in age and in other ways, too. Two-thirds of Canada’s population growth is due to international immigration, particularly from Asia. As illustrated in Figure 1.4, immigration from the Philippines is closely followed by immigration from India and other Asian countries.

Diversity—blending individuals of different genders, ethnic backgrounds, cultures, religions, ages, and physical and mental abilities—can enhance a firm’s chances of success. Studies have shown that diverse employee teams and workforces with varied perspectives and experience tend to perform tasks more effectively and develop better solutions to

![Figure 1.4](https://example.com/figure1.4.png)

**FIGURE 1.4** Top 10 countries of birth of recent immigrants, Canada, 2016

business problems than homogeneous groups. According to the chief diversity officer for microprocessor maker Intel, the company planned to invest $300 million in its “Diversity in Technology Initiative” to increase diversity in its workforce by 2020. Studies have shown that diverse employee teams and workforces tend to perform tasks more effectively. They also develop better solutions to business problems than homogeneous employee groups. This result is due in part to the varied perspectives and experiences that promote innovation and creativity in multicultural teams.

Practical managers also know that attention to diversity issues can help them avoid damaging legal battles. Losing a discrimination lawsuit can be very costly; yet, in a recent survey, a majority of executives from racial and cultural minorities said they had seen discrimination in work assignments.21

Outsourcing and the Changing Nature of Work The Canadian workforce is changing, but so is the nature of work. Manufacturing once accounted for most of Canada's annual output, but most Canadian employment has now shifted to services, such as financial management and communications. Because of this change, firms must now rely on well-trained service workers who have knowledge, technical skills, the ability to communicate and deal with people, and a talent for creative thinking. The Internet offers another business tool for increasing employment flexibility. **Outsourcing** is the use of outside vendors to produce goods or fulfill services and functions that were previously handled in-house or in-country. In the best situation, outsourcing can reduce costs and allow a firm to concentrate on what it does best, while also accessing expertise it may not have. But outsourcing also creates its own challenges, such as differences in language or culture.

**Offshoring** is the relocation of business processes to lower-cost locations overseas. Offshoring can involve both production and services. In recent years, China has emerged as a prime location for production offshoring, whereas India has become the key player in offshoring services. Some companies are now structured so that entire divisions or functions are developed and staffed overseas—the jobs were never in Canada to start with. Another trend in some industries is **nearshoring**, outsourcing production or services to nations near a firm’s home base.

Flexibility and Mobility Millennials, the largest demographic group in today’s workforce, care less about money and the work-comes-first lifestyle, and more about training, flexibility, diversity and inclusion, and getting along with co-workers. Millennials want different things than baby boomers, and they also bring a different set of skills to the workplace. Millennials, more open to freelancing or working on contract over traditional full-time employment, expect flexible work hours along with mobility to work at home, a café, or the office. Many prefer to use technology (including their personal smartphones), to collaborate online, where they can share knowledge, a sense of purpose or mission, and a free flow of ideas across any geographical distance or time zone.22

To retain valued employees, managers of global workforces need to present exciting work opportunities, build and earn trust, and ensure that all members are acting ethically and contributing their share without the day-to-day supervision of a more traditional work environment. Such managers and their employees need to be flexible and responsive to change while work, technology, and the relationships between them continue to evolve.

Innovation through Collaboration Some observers also see a trend toward more collaborative work in the future, as opposed to individuals working alone. Businesses that use teamwork hope to build a creative setting where all members contribute their knowledge and skills to solve problems or seize opportunities.

The old relationship between employers and employees was simple: Workers arrived at a certain hour, worked at their jobs, and went home every day at the same time. Companies rarely laid off workers, and employees rarely left for a job at another firm. But all that—and more—has changed. Employees are no longer likely to remain with a single company throughout their entire careers. Employees do not expect lifetime loyalty from the companies they work for, and they do not expect to give that loyalty to any company either. Instead, today’s employees build their own careers however and wherever they can. These changes mean that
many firms now recognize the value of partnering with employees to encourage creative thinking and problem solving and to reward risk taking and innovation.

**Assessment Check**

1.5.1 Define outsourcing, offshoring, and nearshoring.
1.5.2 Describe the importance of collaboration and employee partnership.

## 1.6 Today’s Manager

**LEARNING OBJECTIVE 1.6**

Identify the skills and attributes needed for today’s manager.

Today’s companies look for managers who are intelligent, highly motivated people who can create and sustain a vision of how an organization can succeed. The twenty-first-century manager must apply critical thinking skills and creativity to business challenges and lead change.

### Importance of Vision

To thrive in the twenty-first century, businesspeople need **vision**, the ability to perceive marketplace needs and what an organization must do to satisfy them. Canadian James Cameron, shown in the photo is the Oscar-winning writer and director of such blockbuster sci-fi films as *The Terminator*, *Aliens*, *The Abyss*, and the most successful film of all time, *Avatar*. Cameron has an uncanny ability to know what audiences want and how to produce it. After he exceeded the budget for *Titanic*, Cameron persuaded his financial backers to continue funding the project. To show his confidence that *Titanic* would succeed, he offered to give up his fees for writing the screenplay and directing in exchange for receiving a percentage of box office sales. His financial backers recognized his motivation to complete the film, and their funding of the film proved to be a good decision. *Titanic* earned more than $25 million the first weekend of its

Film director, writer, and inventor James Cameron knows how to entertain audiences.
release and went on to replace George Lucas’s *Star Wars* as the biggest money-making film to date. Cameron’s futuristic 3D creation *Avatar* broke through that milestone and won 11 Oscars. And to help with budgeting costs for four sequels, Cameron is producing all of the expensive underwater scenes at one time. The plan is to release Avatar 2, 3, 4, and 5 in 2020, 2021, 2024, and 2025, respectively.23

Another leader with a definite vision is Shake Shack’s Danny Meyer. See the “Business Model” feature for his story.

### Importance of Critical Thinking and Creativity

Critical thinking and creativity are essential characteristics of workers in the twenty-first century. Today’s businesspeople need to look at a wide variety of situations, draw connections between dissimilar information, and develop future-oriented solutions. This need applies to top executives, mid-level managers, and entry-level workers.

**Critical thinking** is the ability to analyze and assess information to pinpoint problems or opportunities. The critical thinking process includes activities such as determining the authenticity, accuracy, and worth of information, knowledge, and arguments. It involves looking

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**Business Model**

**Shake Shack Blends Up “Enlightened Hospitality”**

Apparently lots of Torontonians are familiar with Shake Shack and its business model. Recently, hundreds of fans lined up at a temporary pop-up Shake Shack set up inside another trendy restaurant in the downtown financial district. No doubt this market test for a future fully operational franchise was deemed a resounding success. If you’ve been to New York City recently, you may have seen that one of its many tourist attractions is a burger joint with a never-ending line out the door. Based in New York, Shake Shack is a regional “fast-casual” restaurant known for its high-quality, sustainably sourced food offerings, which include its signature “ShackBurger,” hot dogs, crinkle fries, and, of course, milk shakes. The quickly growing “fast-casual” restaurant segment, which includes Chipotle and Panera, is a hybrid of fast food and casual dining. Compared with fast food restaurants, Shake Shack offers healthier, higher quality, and specially prepared food in an upscale setting with top-notch service.

Shake Shack’s owner, restaurateur Danny Meyer, is an example of someone who has reaped significant rewards operating within the private enterprise system. By successfully identifying and serving the needs and demands of customers who think nothing of standing in long lines to experience all-natural menu items and great customer service, Meyer has created somewhat of a cult following for his Shake Shack dining experience.

Also coveted for its frozen custard, Shake Shack’s core philosophy is based on the simple mantra of “enlightened hospitality,” which translates to a warmer, friendlier, and more engaging customer service experience for its burger-loving clientele. Known affectionately as the “Shack Team,” employees are expected to embody the “5 tenets of enlightened hospitality”: “taking care of each other, our guests, our community, our suppliers, and our stockholders.” With its recent IPO, the Shack Team has more than just a few stockholders to consider and has expanded beyond the Big Apple to locations including Miami, Chicago, Atlanta, and Austin. Globally the company has more than 30 franchises outside the United States in Japan, the Middle East, Russia, Turkey, and the United Kingdom. With a vision of “stand for something good,” Meyer’s Shack Team seems to be serving up its unique dining experience to an increasing number of satisfied customers.

**Questions for Critical Thinking**

1. With its recent IPO, Shake Shack plans to continue its global expansion. Critics are concerned that Shake Shack’s regional strength in its New York hub may not translate to a larger potential in other countries like Canada. Do you agree? Why or why not?

2. In regard to sustainability, many consumers believe that ethically raised animals are not just better for their diets but also better for the overall community and the global supply chain. Research fast-casual dining and provide examples of how, in addition to using hormone- and antibiotic-free beef, for example, this restaurant sector has gained traction among millennials.

beneath the surface for deeper meaning and connections that can help identify critical issues and solutions. Without critical thinking, a firm may encounter serious problems.

**Creativity** is the capacity to develop novel solutions to perceived organizational problems. Most people think of creativity in terms of writers, artists, musicians, and inventors, but that definition is very limited. In business, creativity refers to being able to see better and different ways of doing business. A computer engineer who solves a glitch in a software program is performing a creative act, as is a shipping clerk who finds a way to speed up the delivery of the company’s overnight packages. Sometimes a crisis calls for creative leadership. For example, Captain Chesley Sullenberger famously guided US Airways Flight 1549 to a safe landing in New York’s Hudson River. In doing so, he had already made immediate and critical decisions when both his plane’s engines quit after hitting birds upon takeoff. Sullenberger’s quick thinking and years of training saved the lives of his passengers and crew members and the people on the ground. “Losing thrust on both engines, at low speed, at a low altitude, over one of the most densely populated areas on the planet. Yes, I knew it was a very challenging situation,” he said. As the plane lost altitude, Sullenberger ruled out returning to LaGuardia Airport or attempting to land at a nearby New Jersey airport. Instead, he opted to splash down in the river, close to a ferry terminal. “I needed to touch down with the wings exactly level … the nose slightly up … [and] just above our minimum flying speed, but not below it.” He accomplished those seemingly impossible feats and saved all 155 people on board.24

Some practice and mental exercise can cultivate your own ability to think creatively. See Figure 1.5 for some exercises and guidelines to improve your creativity.

Creativity and critical thinking must do more than generate new ideas. They must lead to action. In addition to creating an environment in which employees can nurture ideas, managers must give employees opportunities to take risks and try new solutions.

**Ability to Lead Change**

Today’s business leaders must guide their employees and organizations through the changes brought about by technology, marketplace demands, and global competition. Managers must be skilled at recognizing employee strengths and motivating people to move toward common goals as members of a team. Throughout this book, real-world examples show how companies have initiated major change initiatives. Most, if not all, of these companies have been led by managers who are comfortable with making the tough decisions that are needed in today’s fluctuating conditions.
Factors that require organizational change can come from both external and internal sources; successful managers must be aware of both types of factors. External forces might include feedback from customers, developments in the international marketplace, economic trends, and new technologies. Internal factors might arise from new company goals, emerging employee needs, labour union demands, or production problems.

**Assessment Check**

1.6.1 Why is vision an important managerial quality?
1.6.2 What is the difference between creativity and critical thinking?

**1.7 What Makes a Company Admired?**

**LEARNING OBJECTIVE 1.7**

Outline the characteristics that make a company admired.

Who is your hero? Is it someone who has achieved great feats in sports, government, entertainment, or business? Why do you admire this person? Does he or she run a company, earn a lot of money, or give back to the community and society? Every year, business magazines and organizations publish lists of companies that they consider to be “most admired.” Companies, like individuals, may be admired for many reasons. Some of these reasons might include solid profits, stable growth, a safe and challenging work environment, high-quality goods and services, and business ethics and social responsibility. *Business ethics* are the standards of conduct and moral values involved in decisions made in the work environment. *Social responsibility* is a management philosophy that includes contributing resources to the community, preserving the natural environment, and developing or participating in not-for-profit programs designed to promote the well-being of the general public. We explore these topics more deeply in Chapter 2. You’ll also find business ethics and social responsibility examples throughout this book. For businesses to behave ethically and responsibly, their employees need to have strong moral compasses that guide them. The “Judgement Call” feature demonstrates some of the challenges of defining what is ethical.

As you read this text, you’ll be able to make up your mind about why companies should—or should not—be admired. *Fortune* publishes two lists of most-admired companies each year, one for U.S.-based firms and one for the world. The list is compiled from surveys and other research conducted by the Hay Group, a global human resources and organizational consulting firm. Criteria for making the list include innovation, people management, use of corporate assets, social responsibility, quality of management, and quality of products and services. *Fortune* ranked Apple as the number-one most-admired company in 2017. Its complete “Top Ten” list can be found online.

**Assessment Check**

1.7.1 Define *business ethics* and *social responsibility*.
1.7.2 Identify three criteria used to judge whether a company might be considered admirable.
What’s Ahead

As business speeds along in the twenty-first century, new technologies, population shifts, and shrinking global barriers will alter the world at a frantic pace. Businesspeople trigger many of these changes by creating new opportunities for individuals who are prepared to take action. Studying contemporary business will help you prepare for the future.

Throughout this book, you’ll be exposed to the real-life stories of many businesspeople. You’ll learn about a range of business careers and the daily decisions, tasks, and challenges that businesspeople face. By the end of the course, you’ll understand how marketing, production, accounting, finance, and management work together to provide competitive advantages for firms. This knowledge can help you become a more capable employee and enhance your career potential.

Now that this chapter has introduced some basic terms and issues in the business world of the twenty-first century, Chapter 2 takes a detailed look at the ethical and social responsibility issues facing contemporary business. Chapter 3 deals with economic challenges, and Chapter 4 focuses on the difficulties and opportunities faced by firms competing in world markets.

Judgement Call

Volkswagen Fails the Emissions Test

Established in 1937, German giant Volkswagen is the second-largest automobile manufacturer in the world behind Toyota. With three cars in the top 10 list of the best-selling cars of all time—the Golf, the Beetle, and the Passat—Volkswagen recently celebrated a record year, surpassing sales of 10 million cars. Despite its success as an iconic brand with car models that span multiple revisions and generations, cheating on an emissions test has landed the company in a shocking situation.

How did this happen? Volkswagen knowingly placed in cars software that turns emissions control systems on and off. This type of software is commonly called “defeat software,” which turns off emissions controls when driving normally and turns them on when the car is undergoing an emissions test. The U.S. Environmental Protection Agency (EPA) first discovered the device in diesel engines. The software detects when engines are being tested—and when Volkswagen’s four-cylinder cars weren’t hooked up to emissions testing equipment, they did, in fact, emit up to 40 times more pollution than allowed under U.S. standards. When the car recognizes that it is being tested, it communicates with the car’s computer to adjust how the car is running, thereby reducing emissions to legal levels. The result: inaccurate emissions tests on diesel vehicles fitted with the device.

Volkswagen Group of America admits it is totally at fault over the vehicle emissions issue, which will lead to an investigation of the German carmaker for deliberately cheating on U.S. emissions tests. Volkswagen is remorseful, and its CEO abruptly resigned. The company wants nothing more than to gain back the trust of its coveted customers—many of whom feel betrayed.

According to the EPA, using a defeat device in cars to evade clean air standards is illegal and a threat to public health. Fallout from the emissions scandal continues, with the potential of class-action lawsuits, $18 billion in penalties from the EPA, criminal prosecutions, and 11 million loyal customers possibly looking elsewhere for their next car purchase. If that isn’t enough, within the first four weeks after the emissions scandal hit, the company’s stock price slid by 20 percent.

Recently, Volkswagen agreed to spend more than $25 billion in North America to address claims from owners, environmental regulators, U.S. states, and car dealers and to make buyback offers. The company said it had set aside $30 billion to address the scandal. The agreement provides for cash payments to owners of about 20,000 3.0-litre Volkswagen, Audi, and Porsche diesel vehicles in Canada, subject to court approval. The German automaker also agreed to pay a C$2.5-million civil penalty for violating Canadian consumer protection laws.

Questions for Critical Thinking

1. What impact do you think the emissions scandal will have on future sales of Volkswagen cars in North America?
2. Knowing that the company acknowledges its wrongdoing, would you purchase a car from Volkswagen in the near future? Why or why not?

Sources:

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Volkswagen is remorseful, and its CEO abruptly resigned.
Chapter in Review

Summary of Learning Objectives

**LEARNING OBJECTIVE 1.1** Define business.

Business consists of all profit-seeking activities that provide goods and services necessary to an economic system. Not-for-profit organizations are business-like establishments whose primary objectives involve social, political, governmental, educational, or similar functions instead of profits.

**Assessment Check Answers**

1.1.1 **What activity lies at the heart of every business endeavour?** At the heart of every business endeavour is an exchange between a buyer and a seller.

1.1.2 **What are the primary objectives of a not-for-profit organization?** Not-for-profit organizations place public service above profits, although they need to raise money to operate and achieve their social goals.

**LEARNING OBJECTIVE 1.2** Identify and describe the factors of production.

The factors of production have four basic inputs: natural resources, capital, human resources, and entrepreneurship. Natural resources include all productive inputs that are useful in their natural states. Capital includes technology, tools, information, and physical facilities. Human resources include anyone who works for the firm. Entrepreneurship is the willingness to take risks to create and operate a business.

**Assessment Check Answers**

1.2.1 **Identify the four basic inputs to an economic system.** The four basic inputs are natural resources, capital, human resources, and entrepreneurship.

1.2.2 **List four types of capital.** Four types of capital are technology, tools, information, and physical facilities.

**LEARNING OBJECTIVE 1.3** Describe the private enterprise system.

The private enterprise system is an economic system that rewards firms for being able to perceive and serve the needs and demands of consumers. Competition in the private enterprise system means success for firms that satisfy consumer demands. Citizens in a private enterprise economy enjoy rights to private property, profits, freedom of choice, and competition. Entrepreneurship drives economic growth.

**Assessment Check Answers**

1.3.1 **What is an alternative term for the private enterprise system?** Capitalism is an alternative term for the private enterprise system.

1.3.2 **What is the most basic freedom under the private enterprise system?** The most basic freedom is the right to private property.

1.3.3 **What is an entrepreneur?** An entrepreneur is a risk taker who is willing to start, own, and operate a business.

**LEARNING OBJECTIVE 1.4** Identify the seven eras in the history of business.

The seven historical eras are the colonial period, the Industrial Revolution, the age of industrial entrepreneurs, the production era, the relationship era, and the social era. In the colonial period, businesses were small and rural, emphasizing agricultural production. The Industrial Revolution brought factories and mass production to business. The age of industrial entrepreneurs built on the Industrial Revolution through an expansion in the number and size of firms. The production era focused on the growth of factory operations through assembly lines and other efficient internal processes. During and following the Great Depression, businesses concentrated on finding markets for their products through advertising and selling, giving rise to the marketing era. In the relationship era, businesses focus on developing and sustaining long-term relationships with customers and other businesses. The social era of business can be described as a new approach to the way businesses and individuals interact, connect, communicate, share, and exchange information with each other in virtual communities and networks around the world. Technology promotes innovation and communication, while alliances create a competitive advantage through partnerships. Concern for the environment also helps build strong relationships with customers.

**Assessment Check Answers**

1.4.1 **What was the Industrial Revolution?** The Industrial Revolution began around 1750 in England. It moved business operations from an emphasis on independent, skilled workers to a factory system that mass-produced items.

1.4.2 **During which era was the idea of branding developed?** The idea of branding began in the marketing era.

1.4.3 **What is the difference between transaction management and relationship management?** Transaction management focuses on building, promoting, and selling enough products to cover costs and earn profits. Relationship management is the collection of activities that build and maintain ongoing ties with customers and other parties.

**LEARNING OBJECTIVE 1.5** Explain current workforce trends in business.

The workforce is changing in several significant ways: (1) It is aging and the labour pool is shrinking and (2) it is becoming increasingly diverse. The nature of work has shifted toward services and a focus on information. More firms now rely on outsourcing, offshoring, and nearshoring to produce goods or to fulfill services and functions that were previously handled in-house or in-country. Today’s workplaces are also becoming increasingly flexible, allowing employees to work from different locations and through different relationships. Companies promote innovation through teamwork and collaboration.
1.5.1 Define outsourcing, offshoring, and nearshoring. Outsourcing involves using outside vendors to produce goods or to fulfill services and functions that were once handled in-house. Offshoring is the relocation of business processes to lower-cost locations overseas. Nearshoring is the outsourcing of production or services to nations near a firm’s home base.

1.5.2 Describe the importance of collaboration and employee partnership. Businesses are increasingly focusing on collaboration, rather than on individuals working alone. No longer do employees just put in their time at a job they hold their entire career. The new employer–employee partnership encourages teamwork, creative thinking, problem solving, and innovation. Managers are trained to listen to and respect employees.

LEARNING OBJECTIVE 1.6 Identify the skills and attributes needed for today’s manager.

Today’s managers need vision, which is the ability to perceive both marketplace needs and the way their firm can satisfy those needs. Critical thinking skills and creativity allow managers to pinpoint problems and opportunities and plan novel solutions. Finally, managers are dealing with rapid change, and they need skills to help lead their organizations through shifts in external and internal conditions.

Assessment Check Answers
1.6.1 Why is vision an important managerial quality? Managerial vision allows a firm to innovate and adapt to meet changes in the marketplace.

1.6.2 What is the difference between creativity and critical thinking? Critical thinking is the ability to analyze and assess information to pinpoint problems or opportunities. Creativity is the capacity to develop novel solutions to perceived organizational problems.

LEARNING OBJECTIVE 1.7 Outline the characteristics that make a company admired.

A company is usually admired for its solid profits, stable growth, a safe and challenging work environment, high-quality goods and services, and business ethics and social responsibility.

Assessment Check Answers
1.7.1 Define business ethics and social responsibility. Business ethics are the standards of conduct and moral values involved in decisions made in the work environment. Social responsibility is a management philosophy that includes contributing resources to the community, preserving the natural environment, and developing or participating in not-for-profit programs designed to promote the well-being of the general public.

1.7.2 Identify three criteria used to judge whether a company might be considered admirable. Criteria in judging whether companies are admirable include the following: solid profits, stable growth, a safe and challenging work environment, high-quality goods and services, and business ethics and social responsibility.

Review Questions
1. Why is business so important to a country’s economy?
2. In what ways are not-for-profit organizations a substantial part of the Canadian economy? What challenges do not-for-profits face?
3. Identify and describe the four basic inputs that make up the factors of production. Give an example of each factor of production that an auto manufacturer might use.
4. What is a private enterprise system? What four rights are critical to the operation of capitalism? Why would capitalism function poorly in a society that does not ensure these rights for its citizens?
5. In what ways is entrepreneurship vital to the private enterprise system?
6. Identify the seven eras of business in North America. How were businesses changed during each era?
7. Describe the focus of the most recent era of business. How is this era different from previous eras?
8. Define partnership and strategic alliance. How might a motorcycle dealer and a local radio station benefit from an alliance?
9. Identify the major changes in the workforce that will affect the way managers build a world-class workforce in the twenty-first century. Why is brainpower so important?
10. Identify four qualities required by the “new” managers of the twenty-first century. Why are these qualities important in a competitive business environment?
Projects and Teamwork Applications

The entrepreneurial spirit fuels growth in the Canadian economy. Choose a company that interests you—one you have worked for or dealt with as a customer—and read about the company in the library or visit its website. Learn what you can about the company’s early history: Who founded it and why? Is the founder still with the organization? Do you think the founder’s original vision is still embraced by the company? If not, how has the vision changed?

Brands distinguish one company’s goods or services from its competitors. Each company you purchase from hopes that you will become loyal to its brand. Some well-known brands are Tim Hortons, Burger King, Coca-Cola, Hilton, and Old Navy. Choose a type of good or service you use regularly and identify the major brands associated with it. Are you loyal to a particular brand? Why or why not?

More and more businesses are forming strategic alliances to become more competitive. Sometimes, businesses pair up with not-for-profit organizations in a relationship that is beneficial to both. Choose a company whose goods or services interest you, such as lululemon athletica, Timberland, FedEx, General Mills, or Canadian Tire. On your own or with a classmate, research the firm on the Internet to learn about its alliances with not-for-profit organizations. Describe one of the alliances, including the goals and benefits to both parties. Create a presentation for your class.

This chapter describes how the nature of the workforce is changing: the population is aging, the labour pool is shrinking, the workforce is becoming more diverse, the nature of work is changing, the workplace is becoming more flexible and mobile, and employers are promoting innovation and collaboration among their employees. Form teams of two to three students. Select a company and research how that company is responding to changes in the workforce. When you have completed your research, be prepared to present it to your class. Choose one of the following companies or select your own: BCE, TELUS, 3M, Marriott, or Dell.

Many successful companies today use technology to help them improve their relationship management. Suppose a major grocery store chain’s management team has asked you to assess its use of technology for this purpose. On your own or with a classmate, visit one or two local grocery stores and explore their corporate websites. Note the ways in which firms in this industry already use technology to connect with their customers. List at least three new ways these firms can use technology to connect with their customers, or list three improvements to their existing methods. Present your findings to the class as if you were presenting to the management team.

Web Assignments

1. **Using search engines.** Gathering information is one of the most popular applications of the Internet. Using two of the major search engines, such as Google and Bing, search the Internet for information pertaining to brand and relationship management. Sort through your results—you’re likely to get thousands of “hits”—and identify the three most useful. What did you learn from this experience regarding the use of a search engine?
   - www.google.ca
   - www.bing.com

2. **Companies and not-for-profits.** In addition to companies, virtually all not-for-profit organizations have websites. Four websites are listed below, two for companies (Alcoa and Sony) and two for not-for-profits (the Humane Society of Canada and the National Audubon Society). What is the purpose of each website? What type of information is available? How are the sites similar? How are they different?
   - www.alcoa.com
   - www.sony.com
   - www.humane society.com
   - www.audubon.org

3. **Characteristics of the Canadian workforce.** Visit the website listed below. It is the Statistics Canada source of basic demographic and economic data. Use the relevant data tables to prepare a brief profile of the Canadian workforce (gender, age, educational level, and so on). How is this profile expected to change over the next 10 to 20 years?
   - https://www150.statcan.gc.ca/n1/pub/91-003-x/2007001/4129909-eng.htm

**Note:** Internet Web addresses change frequently. If you don’t find the exact sites listed, you may need to access the organization’s home page and search from there or use a search engine such as Bing or Google.