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CHAPTER 2
THE ENVIRONMENT OF BUSINESS

CHAPTER SYNOPSIS

All businesses, regardless of their size, location, or mission, operate within a larger external environment. This external environment consists of everything outside an organization's boundaries that might affect it. The external environment plays a major role in determining the success or failure of any organization.

The economic environment refers to the conditions of the economic system in which an organization operates. The basic goals of an economic system are stability, full employment, and growth. Measures of how well an economy has accomplished these goals include gross national product, gross domestic product, productivity, balance of trade, and national debt. The Canadian government uses fiscal policies to manage the effects of its spending and revenue collection and monetary policies to control the size of the nation's money supply.

The technological environment generally includes all the ways by which firms create value for their constituents. Technology includes human knowledge, work methods, physical equipment, electronics and telecommunications, and various processing systems that are used to perform business activities.

The political-legal environment reflects the relationship between business and government, usually in the form of government regulation of business.

The socio-cultural environment includes the customs, mores, values, and demographic characteristics of the society in which an organization functions. Socio-cultural processes determine the goods and services as well as the standards of business conduct that a society is likely to value and accept.

Business today is faster paced, more complex, and more demanding than ever before. The challenges businesses face and their solutions make up the business environment.

Successful companies are responding to challenges in the external environment by redrawing traditional organizational boundaries. Major trends include acquisitions and mergers, divestitures and spinoffs, employee-owned corporations, strategic alliances, and subsidiary/parent corporations.

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CHAPTER OUTLINE

I. ORGANIZATIONAL BOUNDARIES AND ENVIRONMENTS

The external environment refers to everything outside an organization's boundaries that might affect it. Managers must have an accurate understanding of the external environment in which their company operates, as the environment has a significant impact on its success or failure.

A. Organizational Boundaries—These separate the organization from its environment. Today, boundaries are becoming increasingly complicated and difficult to identify, as interactions between businesses and suppliers alter traditional roles.

B. Multiple Organizational Environments—The external environment actually consists of many separate environments, including general and local economic conditions, technology, political-legal considerations, social issues, the global environment, issues of ethical and social responsibility, the business environment itself, and numerous other emerging challenges and opportunities.

II. THE ECONOMIC ENVIRONMENT

The economic environment refers to the conditions of the economic system in which an organization operates. The three components of most concern are the rate of economic growth, level of unemployment and rate of inflation.

A. Economic Growth—More efficient use of resource, that is, greater output from the same inputs, or the same output with fewer inputs.

1. Aggregate output and the standard of living—Aggregate output refers to the total quantity of goods and services produced by an economic system during a given period. The standard of living refers to the quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system

2. The business cycle—The growth and contraction pattern of short-term ups and downs in an economy.

3. Gross Domestic Product (GDP) and Gross National Product (GNP)—GDP is the total value of all goods and services produced within a given period by a national economy through domestic factors of production, regardless of who owns the factors of production. GNP is the total value of all goods and services produced by a national economy within a given period regardless of where the factors of production are located.

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a. Real growth rates—The growth rate of GDP must be adjusted to remove the effects of inflation and changes in the value of the country's currency; this is the real growth rate of an economy. If the rate of real growth of GDP exceeds the population growth rate, the standard of living improves.

b. GDP per capita—This is the GDP per person in a country. It is a better measure of the economic well-being of the average person in the country than GDP.

c. Real GDP—Is calculated to remove the effects of changes in currency values and price changes. Nominal GDP is measured at current prices in current dollars.

d. Purchasing Power Parity—Allows a comparison of the standard of living in different countries.

4. Productivity—is a measure of economic growth that compares how much a system produces with the resources needed to produce it. Improved productivity allows more output with the same inputs. As supply increases, prices drop, consumers can purchase more, and the standard of living improves.

5. The balance of trade and the national debt—Several factors influence economic growth, including the balance of trade and the national debt.

a. The balance of trade—The balance of trade equals the economic value of all the products that a country exports minus the economic value of the products it imports. A negative balance of trade results when a country imports (what it buys from other countries) exceeds it exports (what it sells to other countries). A trade surplus (positive balance of trade) results when a country exports more than it imports.

b. National debt—A country's national debt is the amount of money that the government owes its creditors.

B. Economic Stability—Occurs in an economic system when the amount of money available and the quantity of goods and services produced are growing at about the same rate.

1. Inflation—Exists when widespread price increases occur throughout an economic system.

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a. Measuring inflation: the CPI—The Consumer Price Index (CPI) measures the price of a basket of typical products purchased by consumers living in urban areas.

2. Deflation—A period of generally falling prices. Can result from reduced costs due to increased productivity (good) or because consumers have high debt loads and are unwilling to consume much (bad).

3. Unemployment—The level of joblessness among people actively seeking work in an economic system. There are four different types of unemployment: frictional, season, cyclical, and structural. Wage rates vary depending on the relationship between supply of and demand for labour.

C. Managing the Canadian Economy—Fiscal policies are government economic policies that determine how the government collects and spends its revenues. Monetary policies are government economic policies that determine the size of a nation's monetary supply, primarily through the Bank of Canada and management of the interest rate.

III. THE TECHNOLOGICIAL ENVIRONMENT

Technology has a variety of meanings, but as applied to the environment of business, it generally includes all the ways in which firms create value for their constituents.

A. Research and Development—Part of the innovation process that provides new ideas for products, services and processes. Pure research seeks new knowledge, without a particular product in mind. Applied research and development focuses on making the technological innovation into a commercial success. R & D spending in Canada makes up a lower proportion of GDP than in other countries, partly because many Canadian businesses are subsidiaries of U.S. companies and the research is being done in the U.S., not Canada. R& D intensity refers to R&D spending as a percentage of a company's sales revenue. Companies that select a competitive strategy that relies on being a leader in technology will have greater R&D intensity. It is a riskier strategy, but has the potential for significant rewards. Other companies do not want to create technological innovations, but prefer to compete on the basis of refining the technology and finding a way to be the low-cost producer of the technology, which is less risky.

B. Product and Service Technologies—The technologies employed for creating products (both physical goods and services) for customers. Technology is important in manufacturing, but it is also a significant force in the service sector. The internet is a recent technological advance affecting all businesses. Businesses must be alert to new technologies with the potential to dramatically

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impact their operations. Innovative use of new technology can radically alter an industry and make an existing business or industry obsolete. The length of time it takes to accomplish a recurring activity from beginning to end is the cycle time. Reductions in cycle times reflect increased productivity and make the businesses more competitive. Technology transfer is the process of getting new technology out of the lab and used in practical applications in the marketplace.

IV. THE POLITICAL-LEGAL ENVIRONMENT

The relationship between business and government is important in Canada, since businesses are subject to government regulations. Pro- or anti-business sentiment in government can further influence business activity, whether on a federal, provincial or local level. Political stability is an important consideration, for firms interested in expanding internationally. Import and export opportunities may be affected by the relations between the Canadian government and the government of a potential trading partner.

V. THE SOCIO-CULTURAL ENVIRONMENT

The socio-cultural environment includes the customs, mores, values, and demographic characteristics of the society in which an organization functions.

A. Customer Preferences and Tastes—Customer preferences and tastes vary from one part of the country to another, and between different countries. Product usage also varies between countries, such as the marketing of bicycles as a recreational item in Canada and as a mode of transportation in many other countries. Consumer preferences and tastes change over time, with some changes driven by consumers and other driven by companies trying to increase sales. Finally, socio-cultural factors influence the standards of business conduct that are acceptable in the society, and the attitudes that workers in a society have toward their jobs and their employers.

B. Ethical Compliance and Responsible Business Behaviour—This is an especially critical element of the socio-cultural environment. The central issue is the failure of businesses to provide their stakeholders with a fair accounting of their financial health and competitive position. Another important issue is the determination of appropriate ethical behaviour when different ethical standards exist in different countries and Canadian companies are expected to participate in behaviours that are acceptable in the foreign country but clearly unethical in a Canadian business setting.

VI . THE BUSINESS ENVIRONMENT

The business environment includes expectations of customers, suppliers, shareholders, and employees. Current trends such as a more global economy are also an important element of the business environment.

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A. The Industry Environment—Understanding the competitive environment in which a business operates is critical to developing a successful competitive strategy. One of the most popular tools for analyzing the competitiveness of the industry is Michael Porter's five forces model. The stronger the forces, the more competitive the industry, and the more difficult it is for an individual company to operate profitably. If the forces are strong, the company normally has little ability to set its own selling prices and must be able to produce at a low cost to be profitable.

1. Rivalry among existing competitors—Can be seen in activities like intense price competition and elaborate advertising campaigns.

2. Threat of potential entrants—The lower the barriers to entry, the easier it is for new competitors to enter the market.

3. Suppliers—The existence of few suppliers limits the opportunities a company has to obtain the inputs it needs and provides the suppliers with strong bargaining power.

4. Buyers—The existence of few customers when there are many suppliers provides the customers with strong bargaining power.

5. Substitutes—If substitutes are readily available for the product a company sells, the industry is more competitive.

VII. EMERGING CHALLENGES AND OPPORTUNITIES IN THE BUSINESS ENVIRONMENT

At present, companies are refocusing on their core competencies, those skills and resources with which they can gain a competitive advantage and create the most value for owners. Outsourcing activities that are outside their core competencies to businesses that do have the expertise needed can reduce the costs of performing those functions, but create dependencies on those suppliers.

A. Outsourcing—The strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials or resources.

B. The Growing Role of Social media—The strategy of using social media sites and word-of-mouth marketing to spread product information has become very important. By using various formats—games, contests, chat rooms, and bulletin boards—marketers encourage potential customers to try out products and tell other people about them.

C. Business Process Management—Creating team structures focused on processes rather than functional areas of business. By identifying those activities

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that are critical to the business' success, the processes that must be performed well to effectively carry out these activities, and then ensuring the necessary skills and resources are available, decision-making is faster and more customer-oriented, materials and production are better coordinated, and products are delivered more rapidly.

VIII. REDRAWING CORPORATE BOUNDARIES

Companies are joining together in a variety of ways in order to take advantage of opportunities more effectively than is possible alone. Various methods have been used in recent years.

A. Mergers and Acquisitions—An acquisition is the purchase of another business, whereas a merger is a more collaborative process where two firms are consolidated into one. A horizontal merger means that two firms that have been direct competitors in the same industry now become one firm. A vertical merger is the joining together of two firms that had previously been in a customer-supplier relationship. A conglomerate merger occurs when two firms in completely different industries join together. A friendly takeover is an acquisition in which management of the acquired firm supports the change in ownership A hostile takeover is an acquisition in which management of the acquired firm fights the attempt to acquire control. A poison pill is a defence that management adopts to make a firm less attractive in the event of an attempted hostile takeover.

B. Divestitures and Spinoffs—A divestiture is the sale of part of an existing business operation to another company. A spinoff is the strategy of setting up one or more corporate units as independent businesses, motivated by the belief that the units will be more valuable as a separate company.

C. Employee Owned Corporations—Employee stock ownership plans occur when corporations buy back their own shares on the stock market, and then transfer the stock to a trustee for the benefit of the employees, who then gain ownership of the stock through prearranged terms.

D. Strategic Alliances—The joining together of two or more companies on a temporary basis to undertake a particular project. Benefits include spreading the risk of the project between the allied businesses, and the sharing of expertise.

E. Subsidiary and Parent Corporations—A subsidiary corporation is one that is owned by another corporation (through the acquisition of more than 50% of the voting shares). A parent corporation is one that owns (or controls) the subsidiary.

QUICK QUESTIONS

1. How will the various phases in the business cycle affect a small manufacturing firm?

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2. How can economic growth be measured through aggregate output, standard of living, gross domestic product, and productivity?

3. How does the national debt affect economic growth?

4. Why have the items in the "basket of goods" making up the CPI changed over the years?

5. In what ways does the political-legal environment affect business activity?

6. In what ways does the socio-cultural environment affect business activity?

7. Explain how the factors in Porter's Five Forces model are relevant to the competition between Chartered Accountants and Certified General Accountants.

IN-CLASS EXERCISES

Exercise #1: The Geography of Jobs

Activity Overview:
This activity asks students to give some serious thought to the issue of outsourcing and its effect on the Canadian economy and on Canadian workers.

Time Limit: 30 minutes

What to Do:
1. Make sure that students are familiar with outsourcing before you conduct this exercise. Ask them to read the brief section on outsourcing in Chapter 2 in the text and the information found in italics below prior to the day when the exercise will be conducted. Make copies of the material in italics and hand it out to students in advance.

Outsourcing

Businesses are accountable to numerous external constituents. Also, managers sometimes have to optimize their decision making when dealing with conflicting interests. Nowhere is this more visible than in the current debate over the continued outsourcing of jobs to foreign employees.

Outsourcing is not a recent phenomenon. For years manufacturers have subcontracted their labor to low-cost factories in developing nations. Nike and Reebok, for instance, outsource the production of all their athletic shoes to factories in Southeast Asia. And many other companies have similar practices. In general, the jobs that have been outsourced have been relatively low-skill in nature. While labor and other observers have long been aware of this practice, business leaders have been able to argue with

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some conviction that this practice would lead to more high-quality jobs in places like the United States.

In recent years, a major change in outsourcing has occurred as more companies have started to outsource skilled and/or white-collar jobs to other countries. Companies like Microsoft find that highly skilled software programmers in places like India can perform as well as their U.S. counterparts for about a quarter of the salary costs. Boeing is now having some of its engineering work done abroad. And some experts are beginning to visualize how many other basic services, ranging from income tax preparation to financial analysis to medical records interpretation, can also be exported. How big is the problem? Experts project that 3.3 million jobs will be exported from the United States by 2015, and that another 14 million jobs have been identified as being "at risk." The same sorts of concerns are being expressed in Canada. Many experts also agree that while outsourcing may be bad for various specific individuals, in the long term it will be good for the country as a whole. And besides, as one CEO argues, "If your competitor is sending jobs overseas, you're almost forced to do the same."

That sentiment sums up the debate nicely. On the one hand, if businesses are accountable to their shareholders, they are obligated to keep their costs as low as possible and to remain competitive in their respective marketplaces. From this perspective, then, they should outsource whenever and wherever feasible. On the other hand, to the extent that businesses have a social obligation and an obligation to their current workers, they must take into account the social and human cost of displacing U.S. workers. So which side is right? This is a case in which there is no simple answer, and what is right or wrong is in the eye of the beholder.

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2. Divide students into three- or four-member groups and ask them to discuss within their groups the pros and cons of (a) outsourcing in order to keep prices down, and (b) reducing dependence on outsourcing in order to better fulfill social obligations toward stakeholders. (15 minutes)

3. Reassemble the class and discuss each group's opinions. (15 minutes)

Don't Forget:
This is a case in which there is no simple answer.

Wrap-Up:
Wrap up the activity by reminding students that some industries may rely more heavily on outsourcing than others. Further, some industries gain higher-quality standards and expertise through outsourcing. Also remind students of positive trade relationships that evolve through dependence on outsourcing.

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Exercise #2: Experiential Exercise: Competing For Your Business

Activity Overview:
The purpose of this exercise is to demonstrate the "invisible hand theory" by voting with your dollars.

Time: 50 minutes

What To Do:
1. Divide half the class into teams of three or four students. Each team will be the owner of a video store. The other half of the class will act as customers (see below).

2. Each store will develop an offering they think is unique (20 minutes).

3. The group designated as customers should list their criteria for choosing a video store. (15 minutes)

4. The entrepreneurs will explain their store's offering to the rest of the class who are potential customers (10 minutes).

5. Customers will line up in front of the store of their choice. Count the people in front of each store (5 minutes).

Follow-up Questions:
1. Is one store more popular than the others? Why is that?

2. What can the less-popular stores do to attract customers?

3. How would that affect the most-popular store?

4. Are the customers voting with their dollars?

Exercise #3: Corporate Reputations

Activity Overview:
This activity is designed to help students assess the information in a case study, and then answer questions that are relevant to material presented in the chapter.

Time Limit: 25 minutes

What to Do:
1. Make copies of the case below and hand it out to students prior to the class when this exercise is to be conducted.

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Corporate Reputations Are On The Line

During the last few years, there has been a great deal of negative publicity about business firms because of illegal and unethical behaviour by business executives and the economic woes that started in 2008. But some corporations continue to perform well, and to do good things for their stakeholders. Each year, the Reputation Institute publishes Global Pulse, which ranks the world's 1000 largest companies according to their reputation with their stakeholders. Each company's score is determined by how well it scores on key performance indicators like products/services, innovation, workplace, citizenship, governance, and leadership.

A list of the most respected corporations in Canada is published by KPMG/Ipsos-Reid. Several hundred leading Canadian CEOs are asked to assess Canadian corporations on eight performance categories such as long-term investment value, innovation and product/service development, financial performance, corporate social responsibility, corporate governance, human resource management, and customer service.

Surveys about corporate reputations are also conducted in the United States. The Reputation Quotient study is a joint effort of Harris Interactive Inc., a Rochester, New York-based research firm, and the Reputation Institute of New York. Its surveys ask thousands of people to name two companies with the best reputation and two companies with the worst reputation. Respondents evaluate the companies on factors such as emotional appeal, financial performance, social responsibility, vision and leadership, and workplace environment. In one recent survey, 88 percent of respondents rated the reputation of American business as either "not good" or "terrible."

During the last few years, the reputations of entire industries have declined. For example, the reputations of the financial and automobile industries have declined sharply since the recession of 2008-2009. Consumer impressions of the pharmaceutical and oil industries are also negative because of a widely held belief that these industries are overcharging consumers for the products they sell. The tobacco industry has also had problems because consumers think that information about the negative effects of smoking and nicotine were withheld from the public.

When we consider negative information about business firms, we must remember that only a very small proportion of them are actually engaging in illegal or unethical behaviour. A review of the global, Canadian, and U.S. reputation lists—and the criteria that are used to generate them—provides some reassuring testimony on the vitality and values of many businesses. It also shows the manner in which they conduct their operations and gives us some insights into how companies must perform to gain the kind of stellar reputation necessary to get on the list.

These criteria all have one underlying theme: They reflect in one way or another the extent to which an organization and its managers effectively meet or exceed the needs

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and expectations of their external constituents. For example, hiring and developing the brightest and most motivated people from the labour market results in high levels of employee talent. Likewise, respecting the needs of shareholders and other investors affects several criteria, including financial soundness, use of corporate assets, and long-term investment value. Says one expert, "We admire companies that cater to their constituents."

Questions for Discussion

1. What is your opinion of the value of the rankings like these? How might the different ways that the Canadian and U.S. surveys are conducted influence the results?

2. Do you think the criteria that are used are appropriate? Can you suggest others?

3. Is the ranking something that investors should rely on in buying stock?

4. If you were a top manager and wanted your firm to move up in the rankings, how would you proceed?

Sources: *The Reputation Institute, "Top 25 Reputation Leaders in the World," www.reputationinstitute.com/events/Global_Pulse_2008_Results.pdf, accessed May 6, 2009; www.harrisinteractive.com, accessed May 4, 2009; Gordon Pitts, "The RBC Dynasty Continues," The Globe and Mail, January 30, 2006, pp. B1, B10*

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2. Form three- or four-person groups and assign each group one of the questions for discussion found at the end of the case. Make sure all of the questions are covered. (10 minutes)

3. After the groups have completed their work, reassemble the class and discuss each question. (15 minutes)

Don't Forget:
Ask students during the discussion time whether managers should be concerned about ratings such as these, and whether there is any relationship between how well or poorly a company rates and how well or poorly the company does in the marketplace.

Wrap-Up:
Remind students that the corporate scandals of the past few years have received much publicity. Ask them whether they think this has reduced student interest in a career in business.

<u>Exercise #4: Scanning the Environment</u>

Activity Overview:
This activity asks students to consider how various parts of the external environment affect businesses and industries.

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Time Limit: 25 minutes

What to Do:
1. For larger groups, divide the class into four-member groups; for smaller groups, divide the class into two-member groups.

2. Assign each group a specific industry (for example: automotive, airline, fast food, computer, apparel, or restaurant).

3. Ask each group to consider what variables from the technological, political-legal, socio-cultural, and economic environments affect their assigned industry. (15 minutes)

4. Ask a spokesperson from each group to share their input. (10 minutes)

Don't Forget:
Remind students that external environmental elements can change dramatically, affecting specific industries differently over time.

Wrap-Up:
Wrap up the discussion by making sure that students understand that the nature of a specific business within an industry and the types and quantities of products/services produced can influence the impact of external environmental variables.

Exercise #5: Feeling the Heat from Bad Results: Praying for Good Weather

Activity Overview:
This activity helps students understand the important role played by uncontrollable natural events on the bottom line.

Time Limit: 45 minutes

What to Do:
1. Divide students into groups of four or five and ask them to follow the instructions for the Building Your Business Skills exercise found at the end of Chapter 2. (30 minutes)

2. Reassemble the class as a whole and discuss the Follow-Up Questions. Each group should share input. (15 minutes) Possible answers to the Follow-Up Questions are found later in this chapter under the heading "Team Exercises."

Don't Forget:
This exercise can also be used to focus on small businesses and entrepreneurs instead of large businesses. If this is of interest to either the instructor or students, focusing on small businesses and entrepreneurs will be useful.

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Wrap-Up:
Wrap up the activity by summarizing student group suggestions for how businesses can minimize disruptions that are caused by uncontrollable events like the weather.

TEACHING TIPS

1. Before discussing the chapter material, ask students to form groups and define inflation, the national debt and budget deficits. Then have a general discussion to ensure that everyone understands these important fundamental concepts. Also, ask students why it is important to reduce the national debt and ask them to provide ideas for how this might be done.

2. Ask students to identify current events, court rulings, or legislation which present threats or opportunities for businesses. For example, what impact does a war have on business, and why? Emphasize how something as small as uncertainty can have a major impact.

3. Ask students to identify political events taking place in other countries and the potential impact that these events could have on Canadian businesses.

4. Ask students to identify current events or general conditions which may impact the success of a business today. List their answers on the board by organizational environments.

5. Have students form groups and discuss/list all the external factors (global, national, provincial or municipal) that have influenced specific businesses in their city of residence.

6. Ask students to describe their class. Identify the obvious demographic characteristics and also those factors, which may not be disclosed, such as, religion, sexual orientation, etc. Now speculate on how these factors might impact the decisions made by a business. Are there any opportunities? Threats?

7. Ask the students when a recession becomes a depression. Have them look up various downturns in the economy on the Internet. Many students may be surprised to hear that the Canadian economy has suffered more than one or two recessions over the last hundred years. Keep in mind there is no "official" benchmark on when a recession becomes a depression. Although the best answer may be from former U.S. president Harry Truman, who said: "It's a recession when your neighbour loses his job; it's a depression when you lose your own."

8. Make sure that students understand that gross domestic product (GDP) includes only the value of products produced within a nation's borders; the figure includes the value of products produced by both domestic and foreign companies within those borders.

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9. Reinforce that gross national product (GNP) includes the value of products produced by a country regardless of where they are produced; this figure does not include the value of products produced within the country by a foreign company.

10. The following should generate a good discussion about productivity. A relevant example is typically helpful here. "If two student groups each produced a ten-page paper by the end of the term, but one group had six members and the other group had three members, which group was more productive?" The answer often leads to a good discussion of the relationship between quality and productivity measures.

11. Make sure students understand that inflation occurs when overall price levels go up because too much money is floating around; as a result, purchasing power declines.

12. Have students look up Canada's current balance of trade with various trading partners, including the U.S. Ask them about the importance of the American market. Do they see a need to diversify trading partners?

13. Ask students to identify technological innovations that have had a profound effect on an industry. There are a wide variety of examples from both the present and the past that may be discussed. Past innovations include the gas powered motor, which allowed for the development of the automobile and the decline in businesses which manufactured wagons and carts, harnesses, etc. This also led to the development of a network of service stations. If alternate fuel sources are successfully developed, what impact will that have on current industries? In the current environment, the development of internet capabilities has had a significant impact on many industries, including the music recording industry. What impact has the internet had on the sale of encyclopaedias?

14. Reinforce that the government regulates the money supply and interest rates through monetary policy; the government influences money supply via taxation and spending through fiscal policy.

15. Ask students to describe the monetary policy currently in place in Canada. What does this indicate about the current state of the Canadian economy? What would be the expected change in interest rates if the government felt that the economy was slowing down and there was a strong possibility of a recession?

16. The recent trend of divestitures is in complete contrast to the policies of acquisition that characterized the 1980s. What factors might have led to this new trend?

USING THE BOXED INSERTS

Business Case 2: Supermarket Battles: Then There Were Three

1. What are the biggest challenges to long-term success and profitability for Loblaws, Sobeys, and Metro?

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There are two key challenges to long-term success and profitability for retail food stores. First, because of the very low margins that retail grocery stores earn, they need to be very vigilant about prices and costs. As noted in the case, these retailers are putting pressure on their suppliers to hold the line on prices of the products that they sell to Loblaws, Sobeys, and Metro. Sobeys, for example, demanded that its suppliers reduce their prices by 1 percent. Second, there is intense competition in this industry, and that means that Loblaws, Sobeys, and Metro must be aggressive in fending off the actions of their competitors (and that includes Walmart). To be competitive in the market, these companies must spend a lot of money building new stores, advertising their products, and maintaining their retail reputation in the eyes of consumers. All of this costly activity must be carried out in the context of very thin profit margins.

2. The three main players in the Canadian grocery market each operate under various brands. Why do you think they still use all of those different brand names? Why don't they just re-brand all their stores?

There are several reasons why the three main competitors each operate stores with so many different brand names. Perhaps the most obvious reason is that different brands appeal to different categories of consumers based on the prices they charge. For example, Sobeys' Price Chopper stores emphasize low prices, and so do Loblaws Real Canadian Superstores and No Frills stores. At the other end of the continuum are stores which appeal to upscale shoppers who are willing to pay higher prices. Different store names also exist because some names are well-established in just certain parts of Canada. This is particularly true for Metro stores. Another reason for numerous store names is the history of the company. Different names developed over a long period of time as part of corporate strategy, and some of these store names developed positive name recognition with customers. Since brand recognition can be difficult to achieve, the three companies are reluctant to drop store names. The companies are also reluctant because re-branding all their stores under one name would be a very big (and expensive) task.

3. What are the main challenges for suppliers as the industry continues to consolidate?

As the industry consolidates, the number of buyers decreases. As the number of buyers decreases, their power over suppliers increases because suppliers don't have the large number of alternatives that they used to have. This means that buyers have more power to pressure suppliers to hold the line on prices (much has been written about the pressure that Walmart puts on suppliers to keep prices low). This puts suppliers in a tough spot, because they will be unprofitable if they cannot increase the prices of what they supply if, for example, food prices increase. So they are also being squeezed by retailers who are trying to provide low prices to consumers and at the same time trying to fend off their competitors.

4. How do the external factors other than competition (economy, technology, socio-cultural, legal-political) impact the grocery business?

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Each of the factors in the external environment have an impact on companies in the grocery business. The impact of the *economy* is the most obvious. When the economy is growing and times are good, consumers are much more willing to spend money on a variety of products, including food. This increased demand provides opportunities for increased profit for the companies in the food industry. Conversely, when times are bad, opportunities decline and there is increased competition for scarce consumer dollars. Advances in *technology* also have a big impact. Consider the area of inventory management. Walmart is famous for its efficient inventory system, which helped it gain a significant market share in the food business. It also meant that other companies had no alternative but to spend significant amounts of money to make sure that their inventory system was competitive. The developing threat from online grocers is another illustration of how the technological environment impacts businesses in this industry. *Socio-cultural* factors influence what people eat and what they are willing to pay for food. The development of organic grocery stores illustrates the importance of this factor in the external environment. *Legal-political* factors are also important. As consolidations have proceeded in the grocery business, the federal government has stepped in and imposed various restraints on some companies. For example, after Loblaw Cos. Ltd. acquired Shoppers Drug Mart, the Competition Bureau imposed limits on how much the company could squeeze Shoppers' suppliers by demanding that those suppliers reduce their prices. Loblaw was also required to sell 18 stores and 9 pharmacies because the Bureau was concerned about anti-competitive practices.

The Greening of Business: Here Comes the Hydrogen Fuel Cell . . . Again

The boxed insert describes the slow process that has been evident with respect to the hydrogen fuel cell. Despite its promise, it still seems to be some years away from wide commercial use.

Critical Thinking Question

1. Consider the following statement: "*If the fuel cell had any value, it would have been fully developed by now and there would be many cars on the road that are powered by fuel cells.*" Do you agree or disagree with the statement? Explain your reasoning.

This statement is a useful starting point for a class debate on this issue. Students who agree with the statement will point to the hundreds of millions of dollars that have been spent so far, and will note that although many years have passed, the fuel cell is still stuck in the product testing stage. Other students will disagree with the statement and will point out that it can take many years for new product ideas to really catch on.

As part of the discussion, students should be encouraged to think of products that took many years to develop before they became successful, as well as products that after many years in development never quite made it to commercialization. They should then think about the differences between these two classes of new products. The development of the automobile, radio, television, and computer are good examples of products that

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took a long time to develop but eventually became successful. The rotary engine is an example of a product that was in development many years, but was never widely adopted.

Entrepreneurship and New Ventures: Selling Magic in a Connected World

As a young child, Philp Murad spent countless hours mastering his craft as a magician so he could create illusions and foster a sense of wonder for his audience. That training, in combination with his entrepreneurial ambition, led him down a path to become a pioneer in the use of internet marketing. He no longer performs as a magician, but his company (Philip & Henry Productions) books magicians for children's parties, daycares, schools, and corporate events.

Critical Thinking Question

1. Philip & Henry Productions owe much of their success to internet marketing. How can the company use modern day social media tools to continue to expand and to help increase repeat business?

Students answers will vary based on how creative their thinking is. For example, students might suggest that the company set up contests on Facebook and Twitter, or post images on Pinterest Flickr, or post demonstration videos on YouTube.

Managing in Turbulent Times: The Impact of the Physical Environment

This boxed insert makes the point that in addition to the "external environments of business" that are discussed in Chapter 2, there is another environment—the physical environment—that impacts business activity in Canada. Several examples of the impact of the physical environment are provided.

Critical Thinking Questions

1. How important is the physical environment compared to the other environments of business that are discussed in this chapter?

Students should provide at least some brief comment on how the other environments of business affect business activity so they can make some sort of comparison about the relative importance of the physical environment. For example, the *economic* environment has a very obvious influence on business firms through factors such as the business cycle and the willingness and ability of consumers to purchase goods and services that companies make available. The *technological* environment influences the kinds of goods and services that businesses can feasibly deliver to customers. The *socio-cultural* environment has an effect on business firms because consumer preferences and tastes determine the kinds of goods and services that consumers see as desirable, and because consumer perceptions about what constitutes ethical behaviour cannot be ignored. The *political-legal* environment influences the relationship between business firms and government, often through the legislation that is passed to control business

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activity. The *global* environment has a large impact on Canadian businesses because such a large proportion of Canada's production is exported.

The *physical* environment has become increasingly relevant for business firms as a result of the increased focus on air and water pollution, concerns about climate change, the desire to protect the environment, and the increased interest in "green" products. As noted in the case, the physical environment presents both problems and opportunities for businesses. Students may not be able to develop an extremely precise ranking of which environments are most and least important, but a consideration of the issues related to the physical environment demonstrates that, for many companies, it cannot be ignored.

2. Give three additional examples of how a warming climate can negatively affect business activity. Then give three additional examples of how a warming climate can positively affect business activity. Then do the same analysis for a cooling climate.

Negative effects of a warming climate: Examples that may be mentioned include (1) companies in the forestry industry will have to cope with new tree diseases because insects will be able to survive at higher latitudes than formerly; (2) there will be reduced winter demand and less revenues for companies that provide gas and electricity services; (3) operators of ski slopes will have less revenue because of a shorter winter season.

Negative effects of a cooling climate: Examples that may be mentioned include (1) more demand for companies that provide gas and electric services as consumers cope with colder winters; (2) less summer demand for companies that provide air conditioning products and services; (3) less demand for companies that provide recreational fishing services because ice-out will be later in the year.

Positive effect of a warming climate: Examples that may be mentioned include the following: (1) increased crop yields for some crops (e.g., corn) because of higher summer temperatures; (2) higher profitability for individuals who start growing certain crops that cannot now be grown in Canada (e.g., certain varieties of desirable grapes for making wines); (3) greater demand for businesses providing summer recreation services; increased demand for companies that provide air conditioning products and services.

Positive effect of a cooling climate: Examples that may be mentioned include the following: (1) more consumer demand for winter activities such as skiing; (2) higher revenues for companies providing electricity for consumers who must cope with a colder climate; (3) higher demand and profits for sellers of winter clothing.

A slightly different approach to this question is to consider a specific industry and then note how the physical environment affects it. For example, if the climate warms, the forestry industry will have some new opportunities and challenges to deal with. On the positive side, a warming climate may mean that forestry companies can grow certain trees at higher latitudes than is currently possible. On the negative side, insect infestations may worsen as the climate warms.

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E-Business and Social Media Solutions: Staying Connected in the Skies

Gogo is a company that provides in-flight internet service for people who want to be continuously connected no matter where they are. The company's strategy is to expand internationally in order to achieve profitability.

Critical Thinking Questions

1. So where do you stand? Do you think that communications in mid-flight are an unnecessary distraction or does the thought of connecting in flight please you? How much are you willing to pay for that service?

Student answers will vary. To get some insights into the proportion of students who want to be continuously "connected" vs. those that do not can be achieved by polling the class to determine which of the two basic positions they hold. Then discuss the implications of the two viewpoints for the success of a company like Gogo. The issue of price can also be addressed. There should be some fairly strong relationship between how much students are willing to pay and how strongly they are motivated to be continuously connected.

2. Given the risk, what would motivate an investor to purchase stock in Gogo?

An investor would be motivated by the hope that Gogo's stock price would increase substantially if it is able to successfully penetrate the international market. At the moment, it is not clear whether Gogo can achieve this goal, but some other companies have achieved success only after many years of trying to become profitable, and investors might think Gogo is such a company.

QUESTIONS AND EXERCISES

Questions for Analysis

1. Why is it important for managers to understand the environment in which their businesses operate?

It is important because managers must develop strategies, schedule resources, assess capacity, improve production (performance), be competitive, and anticipate and handle problems. A lack of understanding about the environment makes good performance in these activities difficult to achieve.

2. It has been argued that inflation is both good and bad. How can this be? Explain. Are government efforts to control inflation well advised? Explain?

Inflation is bad because it can lead to a spiral of rising wages chasing rising prices, which must rise to cover the cost of increased wages. It is good because it can signal the beginning of a period of growth for the economy. Government tries to control

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inflation by adjusting interest rates through monetary policy. If the economy is strong and inflation is occurring because demand exceeds supply, a tight monetary policy can reduce demand and slow inflation and the economy to an acceptable level.

3. What are the benefits and risks of outsourcing? What, if anything, should be done about the problem of Canadian companies outsourcing for foreign countries? Defend your answer.

Benefits: saving costs, receiving independent know-how, avoiding idle capacity, availing of experts in a particular field, transferring operational responsibilities

Risks: relinquishing operational control, creating dependency, facing reliability issues, neglecting management supply chain

In terms of what, if anything should be done about outsourcing, answers will vary. The varying answers provide the instructor with an opportunity to lead a discussion that focuses on critical thinking about outsourcing. This would include analysis of unintended outcomes if some oversimplified solutions (for example, banning outsourcing) were attempted. It would also involve an analysis of whether certain assumptions are really reasonable (for example, it would seem that outsourcing increases unemployment, but does it also have other positive effects that might overwhelm reduced employment levels in the company that did the outsourcing?).

4. Explain how current economic indicators such as inflation and unemployment affect you personally. Explain how they will affect you as a manager.

Inflation: Shows the increase in prices of products which impacts consumer purchasing power (CPI) and other personal aspects. It is also, to a certain extent, a gauge of how well the overall economy evolves something that has a bearing on our personal lives as well.

Unemployment: Knowing how many people are out of work can provide you with an indication of the demand of certain skills, the state of employment benefits, the state of the economy (e.g., upswing, recession, depression), and how effectively government is managing the economy.

This question provides an opportunity to make the point that economic issues that may seem somewhat dry to students in the abstract become much more interesting when they are related to their own experiences. For example, students will be very interested in the amount of inflation that is evident with respect to increasing university tuition.

5. At first glance, it might seem as though the goals of economic growth and stability are inconsistent with one another. How can this apparent inconsistency be reconciled?

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Answers will vary. The most general answer is that economic growth increases employment, output, and wealth creation, while stability sustains growth and reduces the threat of inflation.

6. What is the current climate in Canada regarding the regulation of business? How might it affect you if you were a manager today?

The recent corporate financial scandals and the fragile economy (as of 2013) have motivated the general public to call for increased government regulation of business and stricter enforcement of existing legislation. This increase in control measures will place additional constraints and burdens on management.

Application Exercises

7. Select two businesses that you are familiar with. Identify the major elements of their external environments that are most likely to affect them in important and meaningful ways.

Answers will vary.

8. Assume that you are the owner of an internet pharmacy that sells prescription drugs to U.S. citizens. Analyze the factors in the external environment (economic, technological, political-legal, and socio-cultural) that might facilitate your company's activities. Analyze the factors in the external environment that might threaten your company's activities.

Answers will vary.

9. Select a technology product, such as the Samsung Galaxy Smartphone or Amazon's Kindle e-reader, and research how the various environments of business (economic, technological, socio-cultural, global, political–legal, and general business) are currently impacting the sales possibilities of the product or service.

Each of the external environments of business has some impact, but some environments will be seen by students are more salient. For example, students who pick a product like the Kindle e-reader will recognize that the economic environment has an overall influence (i.e., when times are good, consumers purchase more products like a Kindle e-reader), but they are more likely to say that the technology and socio-cultural environments have a bigger influence for that particular product. The technological environment is influential because consumers in the 18-35 age bracket are attracted to the latest technological gadgets. This fact obviously has positive implications for sales. The socio-cultural environment is also important because having the latest electronic gadget can be an important issue in one's social standing.

If students view an automobile as a technology product, the following ideas would be relevant:

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Political-legal environment: This will include environmental protection legislation that will set emission standards the manufacturer will have to meet in order for the automobiles produced to be sold. *Economic environment:* If the economy is strong, sales should also be strong as customers with money to spend acquire new automobiles. If the economy is weak however, sales of automobiles may decline substantially, as automobiles are durable goods with a long life, and automobile owners may decide to drive the automobiles they already own for a much longer period of time. *Socio-cultural environment:* Products that are environmentally-friendly are increasingly valued. As a result, automobiles that are not fuel-efficient may not sell well, while automobiles that run on alternative fuels may sell very well. This may also impact the total sales volume of the industry, as some individuals will opt for public transportation rather than purchasing a car. Consumer preferences for particular colours, standard versus automatic transmission, front-wheel drive, rear wheel drive or four wheel drive, etc. will all affect which automobiles sell best. *Technological environment:* Technological advances such as improved safety features may increase customer demand for some automobiles compared to others, which affects sales of particular models. Technological changes such as the manufacture of small scooters have affected the overall demand for automobiles, rather than just a preference for one particular brand of automobile over another.

Students who pick a service (for example, a university or college education) will identify other environments as significant. For example, students might conclude that the political-legal environment is very important because provincial government decisions about tuition rates are very important to them.

10. Interview two business owners or managers. Ask them to answer the following questions: (a) what business functions, if any, they outsource; (b) are they focusing more attention on business process management now than in the past; (c) how have internet applications and the growth of social media changed the way they conduct business?

Answers will vary. To get a better idea of the pattern of answers, summarize the findings of individual class members for each of the three questions to determine what trends are evident in each area.

TEAM EXERCISES

Building Your Business Skills: Feeling the Heat from Bad Results: Praying for Good Weather

Questions for Discussion

1. How could Rona better prepare for and handle negative weather patterns?

One option is to discount the price of certain products that have been negatively influenced by unfavourable weather. Management obviously does not want to do this, but it is costly to carry inventory that is not moving off the shelves, so they may have to

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discount. They can analyze the trade-offs between incurring increased inventory carrying costs and receiving a lower price for the products they have to discount. Another possibility is to keep only minimal inventory until a pattern becomes apparent in the weather (either negative or positive). This strategy is not simple, but with Canada's reliable transportation system, products can be brought in very quickly to replenish stock if more favourable weather conditions suddenly develop. But it is clear that alternatives like these are largely reactive, not proactive. And it is difficult to be proactive regarding the weather.

2. Are unfavourable natural weather patterns more dangerous for major retailers like Rona or for small businesses? Provide at least one argument on each side before making a choice.

It could be argued that unfavourable weather patterns are more dangerous for a small retailer because the small retailer has fewer financial resources to fall back on if weather depresses sales. The lack of financial resources means that one misstep by a small retailer may drive it out of business. Put another way, a small retailer has less ability to weather the financial storm that may be created by poor weather.

On the other hand, it could be argued that unfavourable weather could be more dangerous for a major retailer because the major retailer counts so much on a high volume of products that, at various times during the year, may be necessary in order to smooth out the overall fluctuations in demand for the total range of products that the company sells. At Rona, for example, gardening supplies and equipment are important contributors to profitability during the spring season. When the weather doesn't cooperate, profit declines, investors are unhappy, and the value of the company's stock may decline.

This question can be expanded by asking students to develop a list of organizations that will be hurt by a certain weather pattern (e.g., a cold spring) and a list of organizations that might benefit from exactly the same weather conditions.

3. Is it possible for a manger to spend too much time trying to anticipate future events? Why or why not?

Managers should spend considerable time trying to anticipate future events if (a) the events pose a significant threat to the company's survival, and (b) if the potential events can be predicted with a fair chance of success. This is the essence of contingency planning (see Chapter 6). For example, it is useful for a company making smartphones to monitor the latest technological developments as it tries to predict new product offerings that competitors may develop. But spending a lot of time trying to anticipate future events which are essentially unpredictable (e.g., a volcanic eruption that causes commercial passenger flights to be cancelled, or a terrorist attack, or unusual weather that will affect consumer demand) is not advisable (even though such events may have a very negative effect on the company if they happen).

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Planning is a crucial management function (see Chapter 6), but spending a lot of time trying to predict events in the *distant future* is not likely worth the effort either. A good example is predicting the supply of oil. While it is interesting to read about the vigorous debates between supporters and opponents of "peak oil," it's hard to know what is going to happen because there are so many factors that enter into the equation. Managers who spend a lot of time on issues like these are unlikely to get a good return for their effort (i.e., an accurate prediction that will help their company do well).

Exercising Your Ethics: Providing a Dose of Competitive Medicine

Activity Overview:
This activity asks students to examine the ethical issues that can arise when making business decisions.

Time Limit: 35 minutes

What to Do:
1. Divide students into four-member teams and ask them to read and follow the instructions for the Exercising Your Ethics: Team Exercise entitled "Prescribing a Dose of Competitive Medicine," which is found near the end of Chapter 2. Students should each choose one of the different roles in the exercise. (20 minutes)

2. Reassemble the class as a whole and discuss the disagreements that were evident within each group. How did the role that students were assigned affect their perspective? (15 minutes) Some possible responses to the Questions for Discussion are as follows:

1. What are the roles of supply and demand in this scenario?

Because prescription drugs are essentially the same regardless of the supplier, the market has determined an equilibrium price at which supply and demand are equal. Competition keeps the price in check. One of the pharmacies could raise its prices only if it offered additional services that differentiated its products enough that consumers were willing to pay extra. However, the owner of the competing pharmacy needs to keep in mind that if prices are raised too much, other suppliers will find a way into the market.

2. What are the underlying ethical issues?

The success of our economic system is based on competition and choice. By engaging in collusion, the pharmacy owners are inhibiting the fair operation of the market. This is problematic because for many people prescription drugs are crucial to achieving or maintaining health. By colluding, the pharmacy owners would be forcing the weakest residents of the town to pay exorbitant prices, at least in the short term.

3. What would you do if you were actually faced with this situation?

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Answers will vary, but students should at least acknowledge the ethical issues. For example, engaging in collusion inhibits the fair operation of the market. One competitor is dealing unfairly with another, and the innocent consumers are paying for it. This question can also form the basis for an in-class discussion about the problem of people saying they would do something if they were in a certain situation, but then doing something different when they actually find themselves in that situation.

Don't Forget:
Remind students to stay within their assigned roles.

Wrap-Up:
Remind students that management decision making is complicated by the fact that what is beneficial to a given decision maker may be harmful to others who will be negatively affected by the decision. But even if a manager knows this, it may be difficult to resist making a decision that will financially benefit the manager while it financially harms others.

CASE ANALYSIS

Business Case 2: Netflix: The Streaming Revolution

The case demonstrates the important conceptual point that the external environment has a major effect on business firms. The case will interest students because it focuses on the entertainment industry, an industry where the challenges of doing business are high because technological change is occurring at a rapid pace. The rise of Netflix as a potent force in the movie delivery business is noted, as is the fall of formerly successful Blockbuster. The main focus of the case is on the numerous environmental threats that Netflix faces (changes in government regulations, unhappy customers, increasing costs, competition from other content providers, and great uncertainty about where the industry is headed). A good way to demonstrate the importance of the external environment is to have students identify the key elements of the environment (see Figure 2.1 in the text) and have them explain the relative importance of each of those elements for Netflix.

Questions for Discussion

1. What are the primary external threats for Netflix in the short-term? In the long-term?

Perhaps the most important external threat (in both the short- and long-term) is uncertainty about where this industry is headed. The precipitous decline of Blockbuster serves as a warning to any company that is complacent about the impact of technological change. Netflix must continually assess whether further revolutionary changes may occur that will impact its own survival. Beyond technological uncertainty, there are several other external threats that Netflix must cope with, and these are clearly described in the

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case. They include increasing costs (Netflix's costs for movie streaming rights increased eight-fold in just one recent year), the loss of exclusive rights for some agreements (e.g., EPIX), competitive threats (major cable providers have launched their own video-on-demand services), inability to get the rights to certain programs (e.g., Astral Media refused to sell the rights to popular shows like *True Blood* to Netflix), uncertainty about the possibility of changes in government regulations (e.g., rules might be changed which will be disadvantageous to Netflix), and customer dissatisfaction (splitting the DVD rental and streaming services meant that customers had to pay more for Netflix services).

2. What do you think of Netflix's latest move—creating new media content? What are the advantages and disadvantages of this strategic move?

There are risks any time a company decides to develop new products or services, and this is what Netflix has done with its new media content initiative. In this sense, Netflix is no different than any other company that has gone through the ups and downs of new product development.

The obvious advantage of this initiative is that it gives Netflix the potential to generate new revenues. The company will also obtain more certainty about the content it can provide (this is an important consideration given Netflix's frustrating experience with Astral Media). But the potential downside is that the new service will not attract enough consumers to cover the costs that have been incurred in developing the new content. The failure rate of new products is high, but if a company can develop a successful new product (e.g., the smartphone), the rewards are great.

3. Do some research on "net neutrality." Debate the pros and cons of this concept.

The concept of "net neutrality" is a bit complicated, but basically it means that companies should not discriminate between users and charge them differential rates based on their bandwidth usage. Students should demonstrate that they understand what is involved (a summary of the issue is provided below in italics).

> *In 2011, the Canadian Radio-Television and Telecommunications Commission (CRTC) decided that it would allow network operators like Bell, Shaw, and Rogers to apply the concept of usage-based billing (UBB) to smaller wholesale Internet Service Providers (ISP's) like Teksavvy, Acanac, and Telnet (these ISP's lease bandwidth from the network operators). Usage-based billing for retail customers had been introduced some years earlier. Companies like Bell argued that billions of dollars have been invested in order to be able to keep up with the demands caused by internet growth. Bell's pricing change was intended to limit the impact that wholesale ISPs had as a result of their customers' increasing usage and limiting the network capabilities for others. Most customers felt that such a change in billing would personally impact their monthly bill, but the changes were likely to impact only 2% of internet users serviced by the wholesale ISPs. After a consumer uproar, Bell withdrew its proposal.*

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When usage-based pricing for ISP's was first announced, opponents (including, obviously, the ISP's) charged that Bell's decision was unfair and that it would markedly increase customers' fees. Much of the comment on social media sites had a "free the internet" flavour. These social media sites were the primary communication tool, but critics pointed out that information shared on such sites is not always factual, or is subject to differing interpretations.

In mid-2011, the CRTC held hearings on the issue of usage-based Internet pricing for ISP's. Arguments were heard from those who supported usage-based billing and those who opposed it. There were heated debates about the motivations of the network operators, the reality of the alleged limited supply of Internet bandwidth, and the impact of usage-based billing on customers. After several weeks of hearings, the CRTC handed down a compromise decision by introducing a billing model that allowed for ISP's to pay for the total capacity they needed, not the volume of data that is downloaded by individual users. The CRTC concluded that this approach more suitably addressed the issues of increasing demand for bandwidth, and would allow the ISPs to offer competitive pricing plans to their customers. The decision reinforced the basic idea that the smaller ISPs should not be able to offer unlimited downloading plans that made these ISPs so popular with customers. Activist groups were torn in terms of their standing on this decision. Some—like ISP TekSavvy solutions—believed it was a step backward, while others—like OpenMedia.ca—believed the compromise was a step in the right direction.

One approach for increasing student interest and involvement in this question is to poll students prior to an in-class discussion about the pros and cons of net neutrality, and which side in the dispute has the best arguments. Then, moderate an in-class discussion that looks at the arguments made by each side. At the conclusion of the in-class discussion, poll the students again and compare the results with the pre-discussion results. Also noted which people changed their minds and why.

Whether a person or organization favours or opposes net neutrality is, of course, influenced by financial considerations. Bell, for example, made several arguments in support of usage-based billing: (1) Bell (and other companies like Rogers and Shaw) had invested billions of dollars in order to keep up with the demands caused by internet growth, (2) the ISP's were taking advantage of Bell's network and its customers, (3) the ISP's were contributing just a fraction of what Bell had contributed to actually make the internet available to consumers, and (4) Bell's pricing change was intended to limit the impact that wholesale ISPs had as a result of their customers' increasing usage and limiting the network capabilities for others.

By contrast, the ISP's opposed usage-based billing. Their argument focused largely on one issue: they claimed that Bell's decision was unfair and that it would markedly increase customers' fees. The ISP's position was supported by various other groups on social media who wanted to "free the internet." Critics pointed out that

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information shared on such sites was not always factual, or was subject to differing interpretations.

As is the case in most disputes of this sort, deciding which party has the best arguments is a judgment call that is sure to be disputed. Note that after the CRTC's original decision had been reviewed and a new compromise decision imposed, there was no consensus—even among ISP's and their supporters—about what was the right thing to do. Some—like ISP TekSavvy solutions—believed it was a step backward, while others—like OpenMedia.ca—believed the compromise was a step in the right direction.

Additional Videos Available for *Business Essentials*
Our video series provides up-to-date videos with discussion questions that you can use immediately in your classroom. The spreadsheet in the Preface of this Instructor's Manual correlates the videos available at the time of publication with each chapter in *Business Essentials*, Eighth Canadian Edition.

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Business Essentials

Ebert, Griffin, Starke, Dracopoulos

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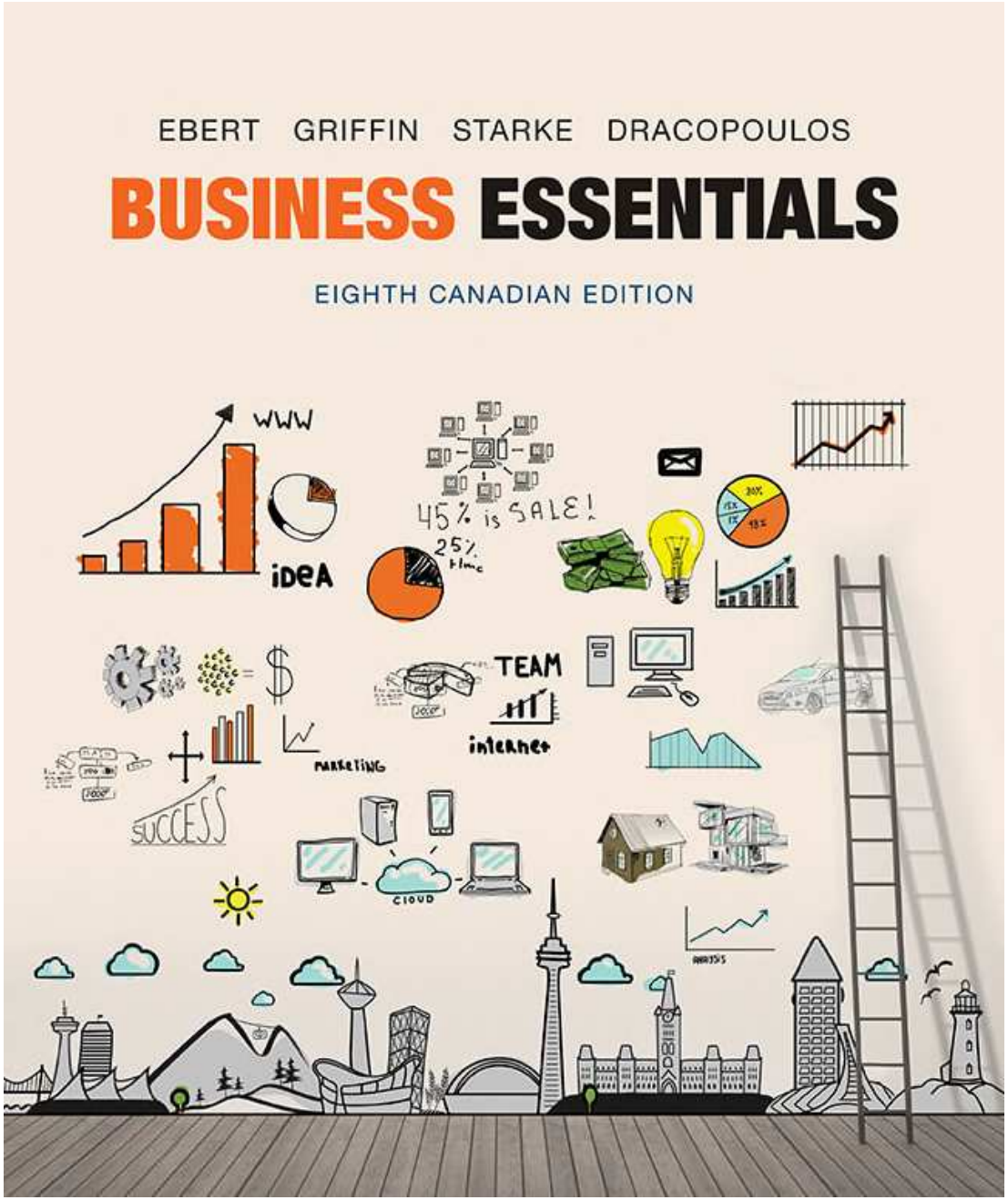

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PEARSON

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CHAPTER 2

The Environment of Business

ALWAYS LEARNING

PEARSON

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Learning Objectives

- **Explain the concepts of *organizational boundaries* and *multiple organizational environments.***
- **Explain the importance of the *economic environment* to business and identify the factors used to evaluate the performance of an economic system.**
- **Describe the *technological environment* and its role in business.**
- **Describe the *political-legal environment* and its role in business.**

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Learning Objectives

- **Describe the *socio-cultural environment* and its role in business.**
- **Identify emerging challenges and opportunities in the *business environment.***
- **Understand the recent trends in the redrawing of corporate boundaries.**

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Organizational Boundaries and Environments
(LO 2-1)

- External Environment
  - factors beyond an organization's boundaries that cannot be controlled
    (i.e. competition)

Pat Holmes/Alamy Stock Photo

CNW Group/SOBEYS INC./Newscom

- Organizational Boundaries
  - that which separates the organization from its environment

Torontonian/Alamy

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Dimensions of the External Environment

(LO 2-1)

Multiple Organizational Environments

- Economic environment
- Technological environment
- Political-legal environment
- Socio-cultural environment
- Business environment
- Global environment
- Emerging challenges and opportunities

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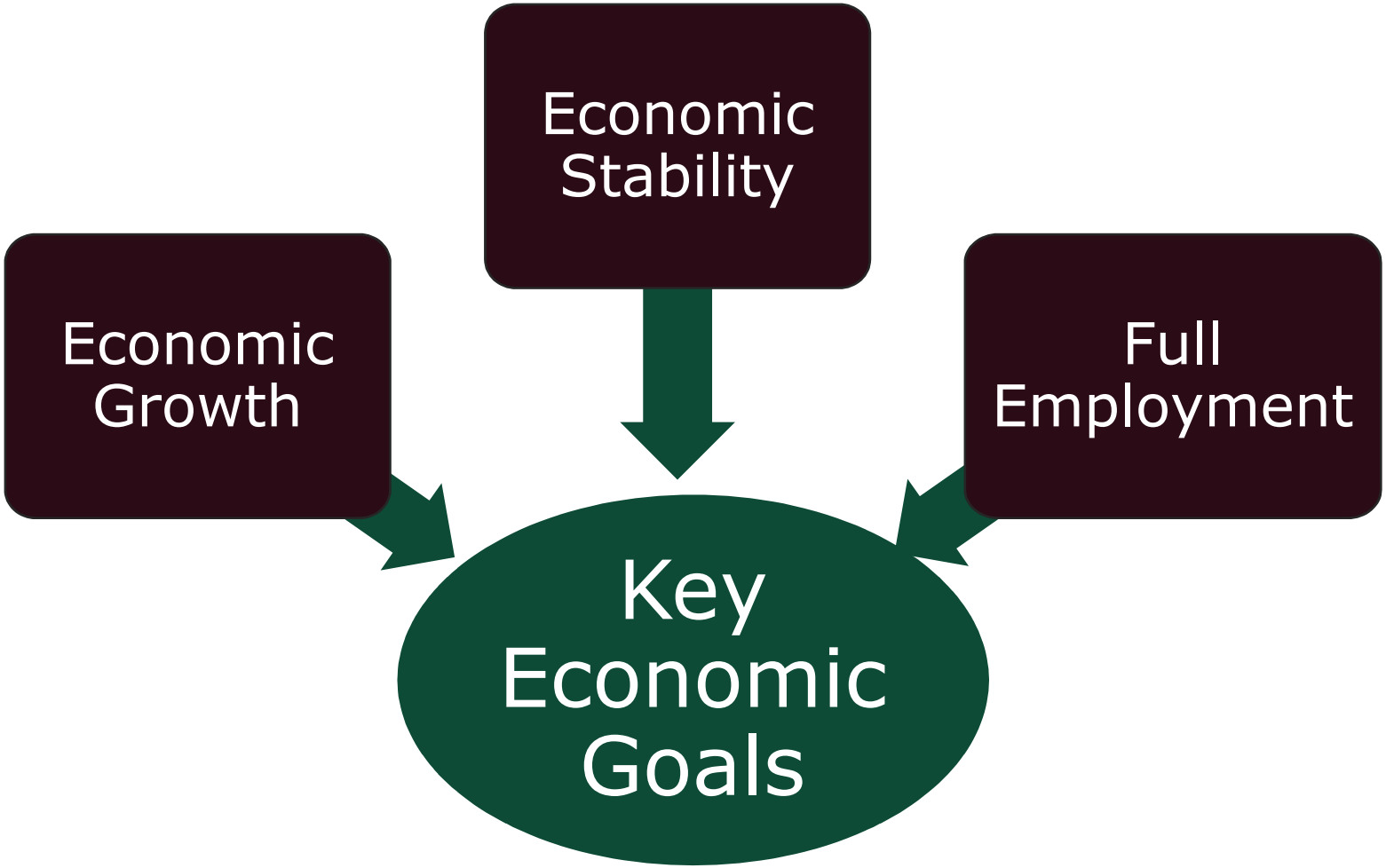
The Economic Environment
(LO 2-2)

- The conditions of the economic system in which an organization operates



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The Economic Environment
(LO 2-2)

Economic Growth Overview

The Business Cycle

Aggregate Output and the Standard of Living

Gross Domestic Product (GDP) and Gross National Product (GNP)

Productivity

Balance of Trade

National Debt

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The Economic Environment
(LO 2-2)

- Business Cycle
  - the typical pattern of short-term ups and downs in an economy (peak, recession, trough and recovery)

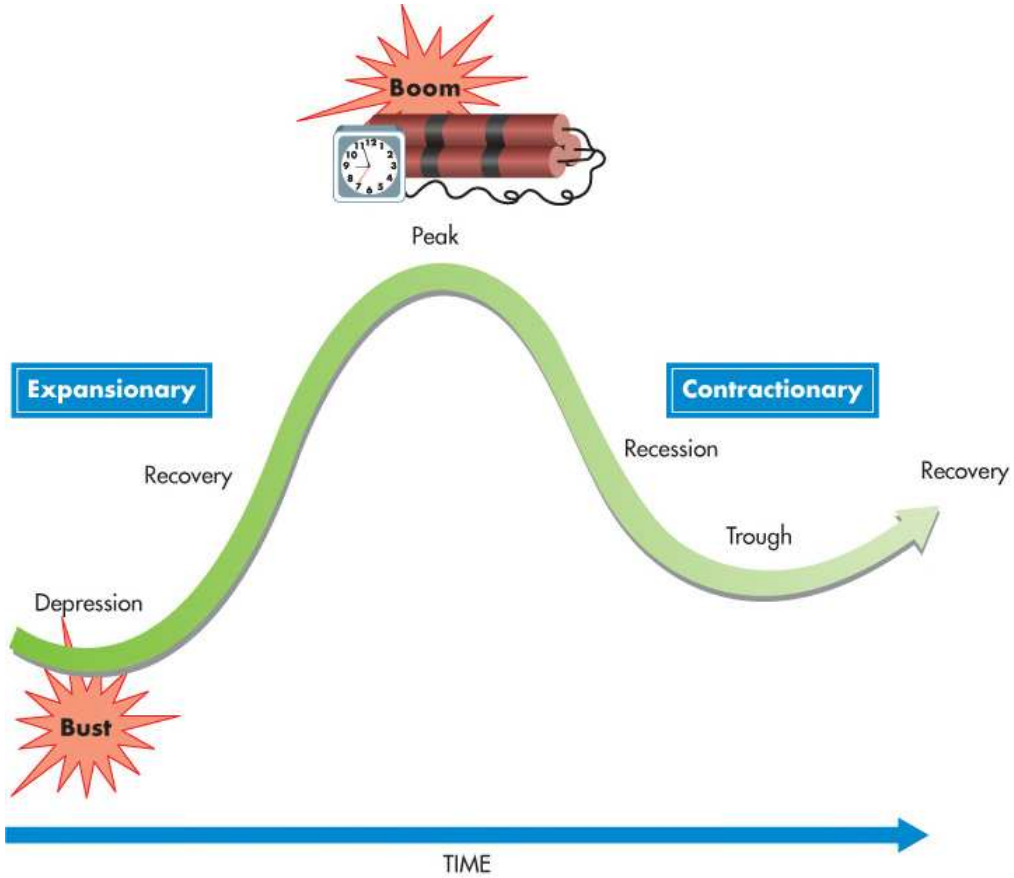

FIGURE 2.2 The business cycle

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The Economic Environment
(LO 2-2)

- Aggregate Output
  - measure of economic growth
  - total quantity of goods and services produced by an economic system during a given period

- Standard of Living
  - total quantity and quality of goods and services that a country's citizens can purchase with their currency

- Productivity
  - measure of growth that compares the output of an economic system with the resources that are needed to produce the output
  - standard of living improves through increases in productivity

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The Economic Environment
(LO 2-2)

Measuring Economic Growth

- Gross National Product (GNP)
  - value of all goods and services produced by a national economy within a given period regardless of production location

- Gross Domestic Product (GDP)
  - value of all goods and services produced by a national economy within a given period with domestic factors of production

Real Growth Rates

GDP Per Capita

Real GDP

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The Economic Environment
(LO 2-2)

- Balance of Trade
  - value of all exported products minus imported products

Exports − Imports

- National Debt
  - amount of money that a government owes its creditors
  - increases/decreases based on the budget deficit/surplus

The balance of trade looks at the all products, including popular imports like the Sony PlayStation Four (PS4). Of course, Sony is a very popular Japanese game console manufacturer that makes products in Japan and China.

Ian Langsdon/EPA/Alamy

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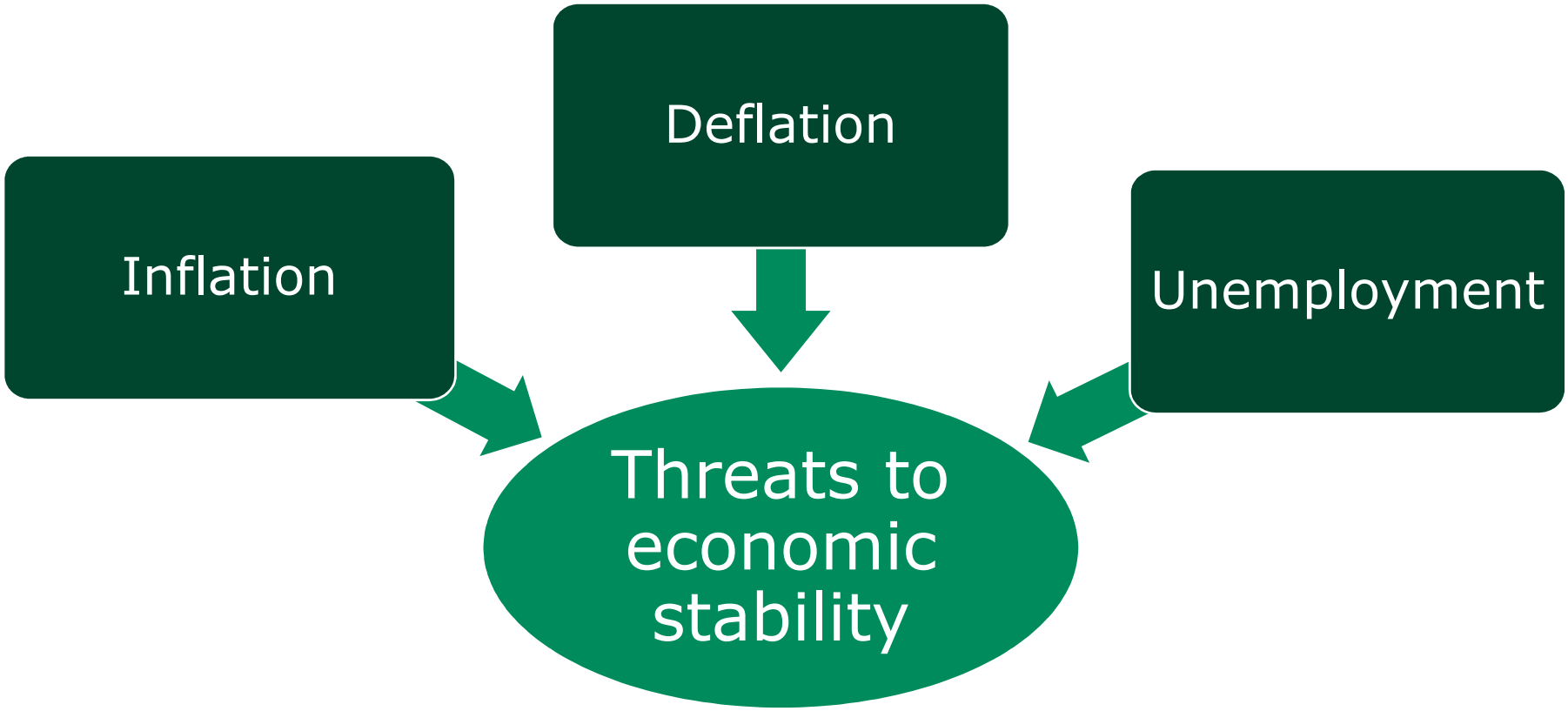
The Economic Environment
(LO 2-2)

- Economic Stability
  - condition when the amount of money available and the quantity of goods and services produced are growing at about the same rate



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The Economic Environment
(LO 2-2)

- Inflation
  - occurs when there is widespread price increases in an economic system
- Consumer Price Index (CPI)
  - tool used to measure inflation
- Deflation
  - a period of generally falling prices

<<< The tougher economic times have led to a growth in the popularity of the various dollar-store retailers across the nation.

Kathy deWitt/Alamy

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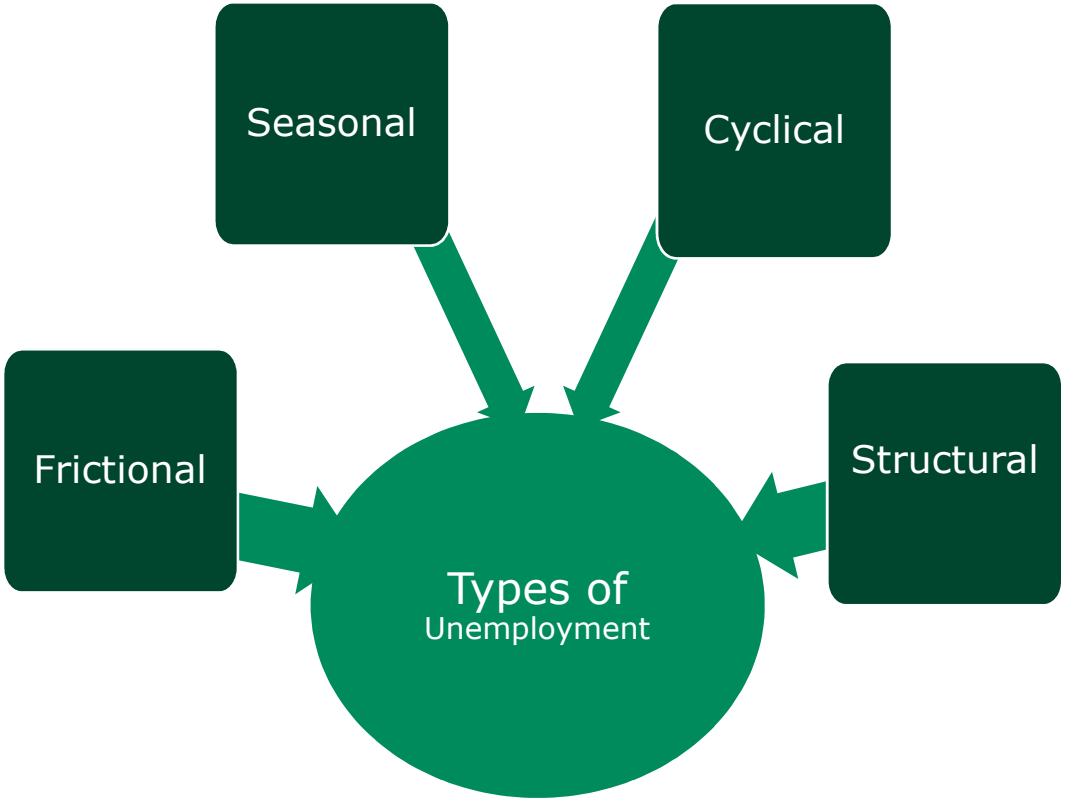
The Economic Environment
(LO 2-2)

- Unemployment
  - level of joblessness among people actively seeking work in an economic system



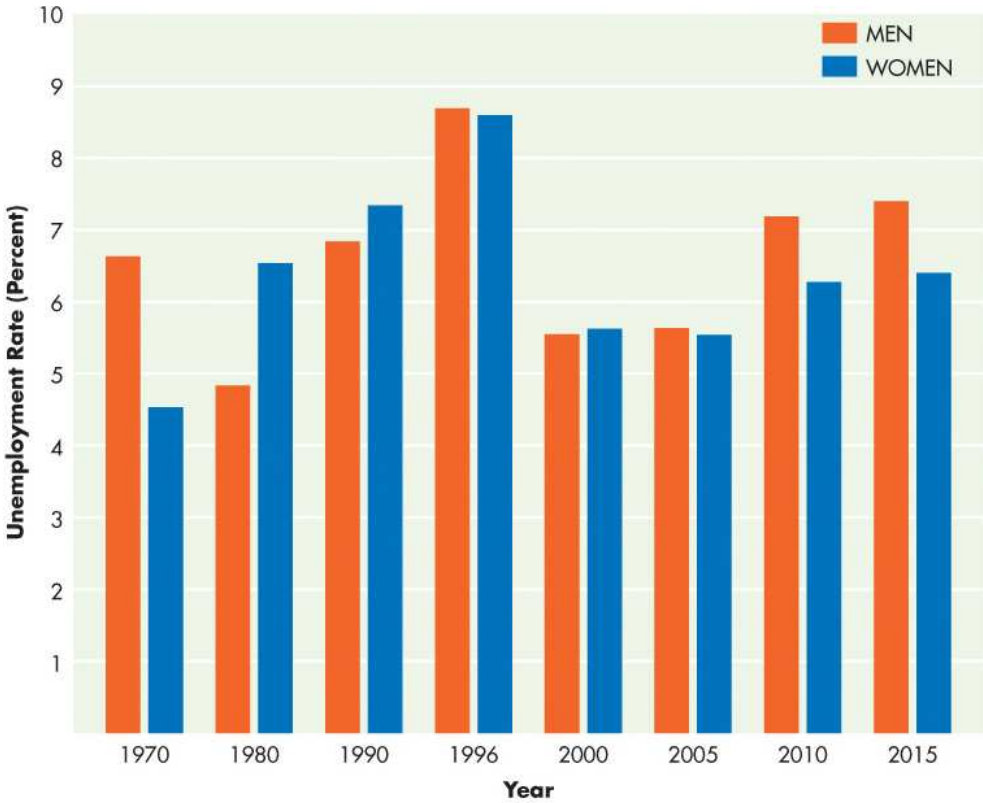


FIGURE 2.4 Historical unemployment rate[27]

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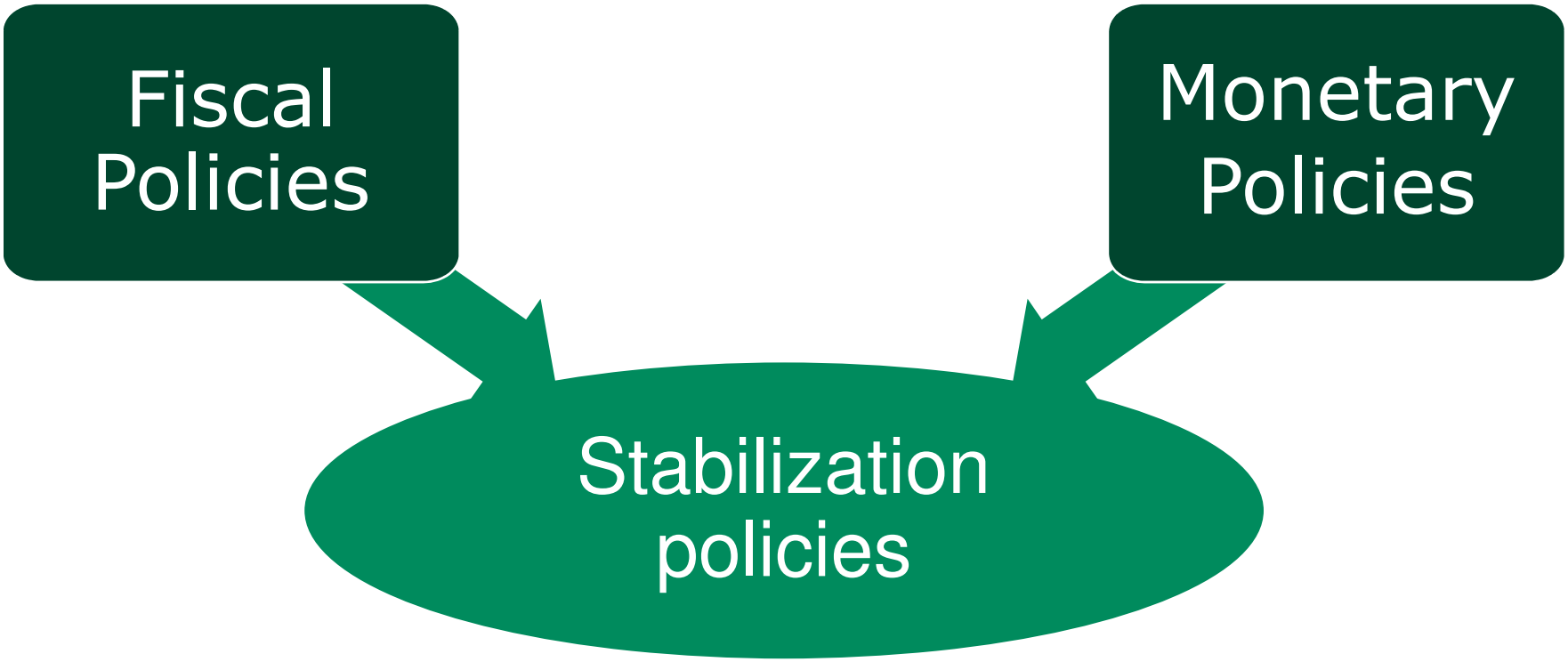
The Economic Environment
(LO 2-2)

- Managing the Canadian Economy



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The Technological Environment
(LO 2-3)

- Technology
  - all the ways a company creates value for its customers
    - knowledge, work methods, physical equipment, etc.

Apple is betting consumers will flock to the new Apple Watch like they have to their other star products. Will the device deliver the promised benefits to the consumer and to the company's bottom line? Time will tell.

Pawan Kumar/Alamy

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The Technological Environment
(LO 2-3)

- Research & Development (R&D)
  - provides new ideas for products services and processes
    - basic
    - applied

<<< Bauer has 52 percent market share of the global hockey equipment market. The company must constantly stay ahead of the technological race with its competitors for products like cor posite sticks.

Alex Brandon/AP Images

Bauer constantly innovates and spends heavily on R&D

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The Political-Legal Environment
(LO 2-4)

- Reflects the relationship between business and government (e.g., regulations)
  - pro- or anti-business sentiment
  - political stability
  - international relations

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The Socio-Cultural Environment
(LO 2-5)

- Customs, values, attitudes and demographic characteristics of the society in which an organization functions
- Customer preferences and tastes
  - vary across and within national boundaries
- Ethical compliance and responsible business behaviour

La Senza has made inroads in the Middle East. Despite strict rules about dress code, there is a thriving business for undergarments in places like Saudi Arabia.

Megapress/Alamy

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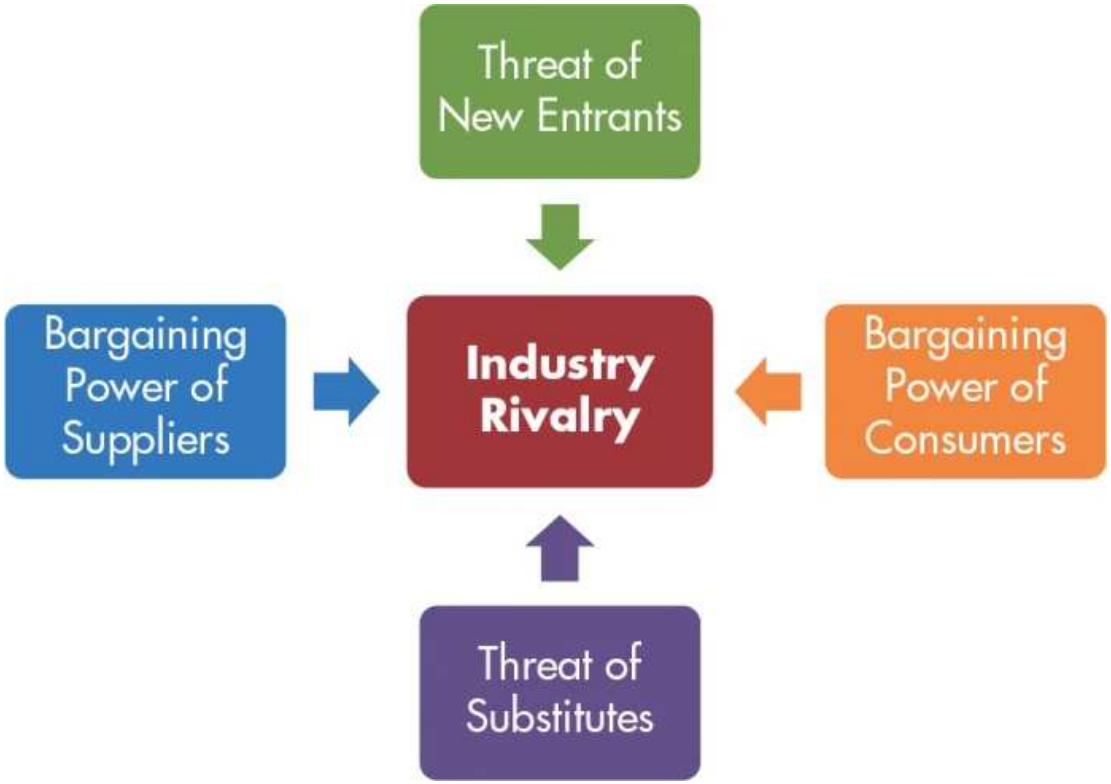
The Business Environment
(LO 2-6)

- The Industry Environment
  - Porter's five forces model is used to analyze the competitive situation in an industry.



Nordstrom is taking it slowly, but it is committed to building its presence in Canada. For now, it has experienced losses of $32 million in 2014 and projected a loss of $60 million in 2015. Entering a new market is not easy.

RosalreneBetancourt 9/Alamy

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The Business Environment
(LO 2-6)

Emerging Challenges and Opportunities in the Business Environment

- The most successful firms are getting leaner by focusing on their *core competencies*
  - the skills and resources with which an organization competes best and creates the most value for owners

Mike Cassese/Reuters/Landov

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The Business Environment
(LO 2-6)

- Outsourcing
  - paying suppliers and distributors to perform certain business processes
- The Growing Role of Social Media
  - social media is now an integral part of daily communication (especially among Millennials)
- Business Process Management
  - moving away from department-oriented organizations toward process-oriented teams

Snapchat is a popular photo messaging application that allows users to share. On average over 700 million videos and photos are shared per day. Users set a time limit of one to ten seconds for their snaps. After that time the message is deleted.

ZoomTeam/Fotolia

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Redrawing Corporate Boundaries
(LO 2-7)

- Acquisitions and Mergers
  - horizontal, vertical or conglomerate mergers
  - friendly or hostile takeovers
- Divestitures and Spinoffs
  - selling part of existing business or setting it up as a new corporation

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Redrawing Corporate Boundaries
(LO 2-7)

- Friendly Takeover
  - the acquired company welcomes the acquisition, (needs cash or other benefits)

- Hostile Takeover
  - the acquiring company buys enough of the other company's stock to take control
    - a poison pill is a defense tactic that management can adopt to make a firm less attractive

Poison Pill

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Redrawing Corporate Boundaries
(LO 2-7)

- Employee-Owned Corporations
  - employee stock ownership programs (ESOP)

- Strategic Alliances
  - two or more companies temporarily join forces
  - often called a *joint venture*

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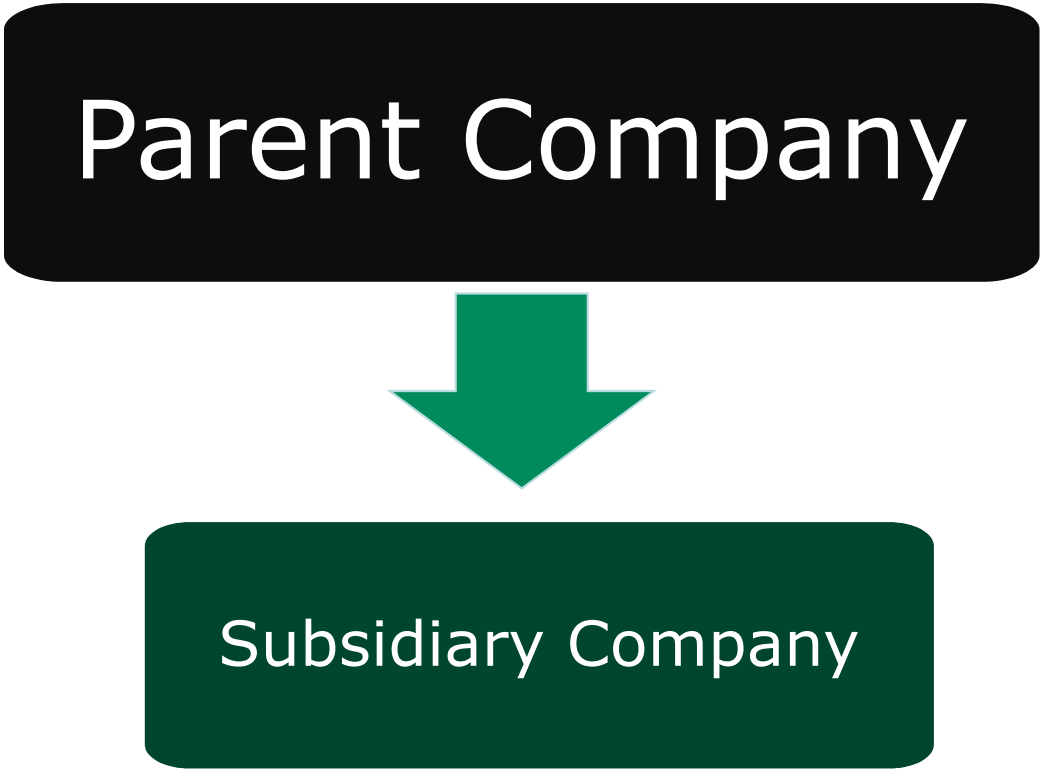
Redrawing Corporate Boundaries
(LO 2-7)

- Subsidiary and Parent Corporations
  - subsidiary corporation owned by another corporation
  - parent corporations own subsidiary corporations



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QUICK-CHECK QUESTIONS

1) Environmental protection laws, interest rates, societal values, and the emergence of new technologies can significantly impact the profitability of a firm. These types of issues can not be controlled by a business as they are considered to exist in the _____.

   A) external environment
   B) internal environment
   C) organization's boundaries
   D) global context

Answer:
A) external environment

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QUICK-CHECK QUESTIONS

2) The total amount of money that a country owes its creditors.

A) National Deficit
B) Purchasing Power Parity Index
C) National Debt
D) Gross Domestic Product

Answer:
C) National Debt

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QUICK-CHECK QUESTIONS

3) The federal government manages the Canadian economic system through two sets of policies: fiscal and monetary. Fiscal Policy refers to:

A) the control of the money supply
B) the control of interest rates
C) the government's approach to its spending and taxation
D) the effective management and control of the national debt

Answer:
C) the government's approach to its spending and taxation

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QUICK-CHECK QUESTIONS

4) Simon would like to buy a Valentines gift for his girlfriend as a sign of his affection. To his disappointment he discovers that roses cost $75 a dozen. Luckily, he can buy chocolates for $20. According to Porter's *Five Forces Model*, chocolates are a less costly _____.

A) option
B) substitute
C) replacement
D) complement

Answer:
B) substitute

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QUICK-CHECK QUESTIONS

5) An organization's *core competencies* refers to:

A) The company's strategies to increase market share
B) The company's product offerings which achieve the highest profit levels
C) The training programs used to increase employee productivity
D) The skills and resources with which they compete best and create the most value for owners.

Answer: D) The skills and resources with which they compete best and create the most value for owners.

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