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THE CONTEXT OF BUSINESS

Understanding
the Canadian
Business Environment



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The Context of Business

Understanding the Canadian Business Environment

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PEARSON

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Preface

There is much to be proud of with regard to the Canadian business sector. According to many observers, Canada is poised to earn a distinguished reputation on the world scene. In fact, Canada has been consistently cited in the media as “one of the best countries to do business in.” Recently *Forbes* ranked Canada fifth overall in the world for business, based on such factors as low corporate tax rates and one of the most stable banking systems.

Beyond its economic stability, Canada is also reputed for its world-class university system, which is much more affordable than most privately funded colleges in the United States. In turn, Canada is known for its ability to attract and retain a highly educated workforce. Our strong business reputation is also based on having among the highest investment rates in education as a percentage of its GDP. Its enviable status is also based on comparatively low poverty and crime rates.

The positive climate for business has also made this country a popular location for entrepreneurs. Based on a study conducted by management consulting firm Ernst & Young, Canada was ranked among the top five places in the world to start a business, given its strong entrepreneurial culture. The Ernst & Young report considered such factors as small business tax burden, access to financing, and intangibles such as the value placed on research and innovation as well as attitudes toward entrepreneurs in the business community.

There is no doubt that Canada is fast becoming a major player on the global scene. However, at the same time significant challenges exist. The past two decades have witnessed tremendous change and turmoil across our organizational landscape—from numerous bankruptcies of once-great Canadian companies to massive reductions in the workforce of many others to the growth in foreign ownership across corporate Canada. Is all this cause for concern or just the natural evolution of business? Are we headed for the best of times or the worst of times?

Indeed, what lies ahead for Canadian business? To address that question, we need to systematically examine the context of business and the factors that shape our business environment. To do so we must look both “inside” and “outside” of the corporate walls. That is, we need to consider key challenges and opportunities that exist within the boundaries of the organization, as well in the organization’s external environment.

The aim of this book is to help facilitate the following learning goals for students:

1. To examine the context within which all businesses operate. Specifically, we consider the internal context and the external context of business and the range of unique challenges and opportunities each possesses.
2. To obtain a deeper understanding of the nature of the Canadian business environment. What differentiates Canada from other business environments? What are the major strengths and weaknesses of Canada as a place to do business? What does the future hold for Canadian business?
3. To encourage critical thinking regarding the nature of business and its environment. This text presents a range of ideas, perspectives, and conceptual frameworks for identifying and analyzing key issues in the business environment.

4. To gain exposure to major voices and leading thinkers in the field of business and organizational studies. This book draws upon many ideas from a wide range of business scholars, experts, and practitioners.

The study of business is really about the study of society. It is an obvious fact that we are a society of organizations—from our hospitals to our schools to our multinational organizations, it is hard to imagine life without organizations. And, for better or worse, those very institutions and organizations that we have grown up with are continuing to undergo dramatic change. We need to understand where change is coming from and how organization's can best respond to the changing business context.

The Context of Business takes the reader on a journey that explores the environment within which business operates—both within the Canadian context and within the global context. The reader will be introduced to a variety of perspectives, theories, and concepts that shed light on real business issues. While this text does introduce the reader to many fundamentally important business terms and concepts, our emphasis is on helping students develop analytical thinking skills. Our aim is to present ideas, frameworks for discussion, and concepts that students can use as tools to help analyze “what is going on out there” in the “real” business world.

We hope that *The Context of Business* takes you on an enriching journey into the environment of business. There is much to learn about Canadian business and, as you will see, there is also much to be proud of. As a current or prospective member of the Canadian workforce, you have every reason to be interested in what the future holds for Canadian business. We hope this book helps you think more critically and thoughtfully about what lies ahead.

Enjoy the journey!

Len Karakowsky

Natalie Guriel

STRENGTHS AND FEATURES OF THIS TEXT

This text differs in a number of significant ways from the typical introductory business textbook. There are at least three key areas of emphasis that distinguish this text, as outlined below.

1. Emphasis on Critical Thinking Skills

The Context of Business will be the foundation for an introductory course in business that first introduces students to the business environment—both internal and external. The aim of this text is to provide a critical examination of the nature of business organizations and the fundamental challenges that they face within the Canadian context. The central objective is to provide insight into the business environment in Canada while encouraging students to think critically about how organizations are managed and how business leaders confront current challenges. This emphasis on critical thinking skills may be what largely differentiates this book from many other introductory business textbooks.

Consequently, while we clearly set out descriptions necessary to understand the “mechanics” of business issues, ranging from the economic context to the political context, our aim is to engage students in a way that will stimulate them to think critically about these contexts. Students will be inspired to ask questions about how business operates and how the environment impacts business. We ask questions central to understanding what is “going on out there” in the Canadian business world, including: What kind of competition exists in Canada in different industries? How has the number of telecommunications companies impacted the consumer? Do government subsidies to business impact competitiveness in Canada? What did the tragedy at Lac-Mégantic teach us about corporate social responsibility? These kinds of questions demand more than simply memorizing business jargon.

We believe that our approach in this text will help students better understand and appreciate the purpose behind their further studies in specific functional areas of business while also nurturing the skills they need to succeed in later courses.

2. Emphasis on Concept Application

Each chapter sets out clearly the **learning objectives** for that chapter. We believe that we have set challenging but achievable learning objectives for each chapter, and we have ensured our chapters provide all the information students require to engage in a thoughtful and informed analysis of each of the topics. Our fundamental aim is to get students to take business ideas, concepts, and frameworks and use them to make sense of business events and challenges.

In writing this book, we endeavoured to make fundamental business concepts “come alive” through the application of these concepts to important, real-world situations. This text includes a wealth of current business cases drawn from the popular press to help clarify ideas presented within each chapter. Specifically, each chapter begins with **The Business World** case, which reports on important, current, real-life business issues and themes that are explored within the chapter. The chapters are also filled with real-life business illustrations summarized within the **Talking Business** boxes. Interspersed throughout the text, these features often present current business news or situations that further explore the concepts discussed in the chapter in a real, applied way. These are ideal for class discussion and also offer media accounts that may differ from the authors’ perspectives of business happenings. Instructors may wish to use some of these as mini-cases for class discussion on a daily basis when a lengthier, end-of-chapter case is not assigned.

Each chapter also contains an **end-of-chapter Case Application with questions**. These cases are also drawn from the Canadian popular press and are intended to give students an opportunity to apply chapter concepts to real business contexts. We have used these kinds of cases in our own classes with much success. The cases are of relatively short length. While the cases are intended to focus on the material in the accompanying chapter, many of the cases in this book carry ramifications that spill over into several areas. However, we have found that the ability to integrate different concepts from different chapters takes time. Consequently, our focus was on building this skill by keeping the cases relatively focused, though certainly many of these cases could be revisited from different chapter perspectives. The *Instructor’s Resource Manual* provides suggestions and possible discussions relating to each of these cases.

3. Emphasis on “Real” Canadian Business Context

In addition to offering frameworks and principles central to an understanding of the context of business in general, we have endeavoured to provide an interesting and up-to-date presentation of relevant business events and business cases. We have made every effort to infuse this text with “real-life” illustrations. References are made to major business stories from across the globe. However, we are particularly interested in the Canadian context. Consequently, we focus on Canadian stories and give ample attention to current Canadian business policies and practices for the topics covered throughout this book. The end-of-chapter cases are drawn from both Canadian and global contexts. And this text was authored by Canadian scholars—it is not a Canadian adaptation of a US text.

While this text relates ideas and theories drawn from the work of management scholars and management research, we are also concerned with relating ideas and issues voiced by practitioners and communicated through such popular press sources as *Canadian Business*, *Globe and Mail*, *Fortune*, *Report on Business*, and the *Huffington Post*.

End-of-Chapter Pedagogical Features

We have included discussion questions at the end of every chapter, ranging from short answer to essay-type responses. These questions provide various levels of challenge and will ensure students have understood the issues presented in the chapter. In addition, we have included multiple-choice questions. The *Instructor’s Resource Manual* provides suggestions and discussions for taking up all of these end-of-chapter questions.

Supplements The following supplements are available for instructors:

Instructor’s Resource Manual. The Instructor’s Resource Manual includes chapter learning objectives, chapter outlines and summaries, discussion questions and answers for in-text features, as well as answers for the discussion and review questions.

Pearson MyTest. MyTest helps instructors easily create and print quizzes and exams with hundreds of questions, including multiple-choice, true/false, short answer, and essay questions. For each question we have provided the correct answer, a reference to the relevant section of the text, a difficulty rating, and a classification (recall/applied). MyTest software enables instructors to view and edit the existing questions, add questions, generate tests, and distribute tests in a variety of formats. Powerful search and sort functions make it easy to locate questions and arrange them in any order desired. Questions and tests can be authored online, allowing instructors ultimate flexibility and the ability to efficiently manage assessments anytime, anywhere, visit www.pearsonmytest.com.

PowerPoint Lecture Slides. Prepared by the authors, the PowerPoint presentations are colourful and varied, designed to hold students’ interest and reinforce each chapter’s main points.

peerScholar. Firmly grounded in published research, peerScholar is a powerful online pedagogical tool that helps develop students’ critical and creative thinking skills. peerScholar facilitates this through the process of creation, evaluation, and reflection. Working in stages, students begin by submitting written assignments. peerScholar then circulates their work for others to review, a process that can be anonymous or not, depending on your preference. Students receive peer feedback and evaluations immediately, reinforcing

their learning and driving the development of higher-order thinking skills. Students can then resubmit revised work, again depending on your preference. Contact your Pearson Canada representative to learn more about peerScholar and the research behind it.

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Chapter 1

Exploring Canadian Business: A Critical Approach What Are the Major Challenges Facing Business?



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Is Canadian business headed for a dismal future, or one that is bright? How does one make sense of the current state of Canadian business? Assessing the prospects of organizations requires a careful examination of the contexts within which they operate. This chapter introduces the framework for this book—a critical examination of the internal and external forces that can significantly impact the functioning and fate of business.

Learning Objectives

After studying this chapter, you should be able to

1. Identify the key internal forces that shape any business.
2. Identify the forces that compose the specific and general environments of organizations.
3. Discuss the nature of the external forces confronting organizations.
4. Explain the importance of each of the external forces within the Canadian business context.

THE BUSINESS WORLD

Can Canadian Tire Flourish in a Rapidly Changing Business Context?

Canadian Tire has certainly become part of the fabric of Canadian society. It's been around since 1922 and has established itself as a solid Canadian retailer. Like the proverbial “underdog” Canadian hockey team, this Canadian retailer has managed quite well against a growing list of formidable US opponents. Over its 90-plus years, it has established approximately 500 stores across Canada, and with revenues close to \$13 billion in 2012, this is no retail slouch.

However, as the expression goes, the times they are a changin'. And the question is, “Can Canadian Tire continue to flourish in these changing times amidst the onslaught of US retailers to Canada?”

US retailers have been invading our retail sector for many years now. It's an invasion welcomed by most Canadian consumers, but certainly not by Canadian retailers. Home Depot, Walmart, and Target are just a few of Canadian Tire's adversaries. And the competition continues to heat up.¹

So what's a good ol' Canadian business to do? This is the question Canadian Tire is attempting to address. While the company clearly must have done something right to survive this long, some observers are puzzled by its success. In a recent *Maclean's* article, writer Chris Sorensen had this to say:

Newer stores, located in towns and cities across the country, are brighter and more airy, but largely house the same eclectic inventory—none of it particularly cheap and none of it terribly aspirational either. Customer service, meanwhile, varies wildly from store to store, the result of the company's independent—and bureaucratic—dealer ownership model. It all seems like a recipe for retail disaster, particularly as an army of well-oiled U.S. big box chains—Wal-Mart, Home Depot and soon Target—continue their relentless march north of the border. Yet somehow, Canadian Tire remains standing, earning profits of \$453 million on \$10.3 billion in retail sales last year, which was up three percent from a year earlier (Canadian Tire Corporation Ltd. also makes money through a banking operation, Canadian Tire Financial Services).²

How has Canadian Tire managed to retain its place among the top 20 Canadian brands over the past several years?

Experts believe that a big part of Canadian Tire's appeal is a combination of familiarity and convenience. But that doesn't tell the whole story. Obviously, Canadian Tire has succeeded by understanding its environment and responding to changing business contexts. The entrance of Target to the Canadian retail landscape has certainly made companies like Canadian Tire more vigilant and aware of the need to constantly evolve to best meet market demands. After feeling increased pressure from competitors, Canadian Tire has recently been revisiting its strategy. While not a direct competitor, Canadian

¹ Hulsman, N. (2013, March 7). Canadian Tire going small in fight against Target, Yahoo Finance. Retrieved from <http://ca.finance.yahoo.com/blogs/insight/canadian-tire-going-small-fight-against-target-180021300.html>.

² Sorenson, C. (2011, October 11). Canadian Tire's baffling strategy to sell you everything. *Maclean's*. Retrieved from <http://www2.macleans.ca/2011/10/11/so-wrong-that-its-right>. Reprinted with permission of MacLean's Magazine.

Tire competes with Target on a number of product lines, including small appliances, and Canadian Tire's subsidiary Mark's Work Wearhouse competes for clothing sales.

In an effort to streamline its decision making, Canadian Tire cut several senior management positions in 2012. It has taken a systematic approach to analyzing the industry and adopting strategies to keep ahead of the game. For example, among recent changes was Canadian Tire's decision to spend less of its advertising budget on small, grassroots events and more on mainstream media. The aim is to build more brand awareness of Canadian Tire. The nature of advertising will also change, with a greater emphasis on the Canadian Tire image rather than on specific products. While some have suggested that Canadian Tire should play up its Canadian roots to appeal to loyal Canadians, others feel that a strategy based on national sentiment is a waste of time; they believe that other more tangible actions should be taken. As Susan Krashinsky of the *Globe and Mail* observed:

Canadian Tire has survived past incursions by U.S. retailers such as Home Depot Inc. and Wal-Mart Stores Inc. The entry of Wal-Mart particularly caused the company to rethink the layout of its stores, change pricing policies and in more recent years, appeal to female shoppers more directly. It's efforts such as this, not Canadian roots, that proved most effective.³

In 2013, Canadian Tire announced plans to significantly improve its digital technology practices, including a partnership with Communitech, a technology company based in Kitchener, Ontario.⁴ The aim is to develop apps, content, and other digital innovations to improve the shopping experience of Canadian Tire customers, both online and in the store. Canadian Tire also recently relaunched its online store after executives aborted a previous attempt in 2009. Among the items sold online are tires and wheels, which have to be picked up at Canadian Tire stores where many will also be installed. This effort was in response to a growing trend of Canadians buying their tires online through US-based websites and having them shipped directly to local mechanics.

Among other changes has been a renewed focus on its automotive roots. In 2013, Canadian Tire opened a number of automotive concept stores that feature drive-in reception areas, express oil and lube services, and auto detailing. Canadian Tire also owns 87 specialty automotive PartSource stores. This is part of its strategic emphasis on auto parts, tools, home supplies, and sporting goods to combat increased competition.

Another area of change is in the customer services offered by Canadian Tire. For example, it recently began offering home installation services for Canadian Tire garage door openers, followed by central vacuum installations and heating and cooling systems.

Canadian Tire has also ventured more deeply into the world of sports.⁵ In 2013, it announced a host of deals with amateur sports organizations to strengthen its ties to a major market: up-and-coming athletes. Among the sponsorships is an eight-year agreement

³ Krashinsky, S. (2012, September 13). Pumping up the "Canada" in Canadian Tire. *Globe and Mail*. Retrieved from www.theglobeandmail.com/report-on-business/industry-news/marketing/pumping-up-the-canada-in-canadian-tire/article4543680.

⁴ Boodoosingh, C. (2013, March 22). Canadian Tire steps up digital strategy, *Digital Home*. Retrieved from www.digitalhome.ca/2013/03/canadian-tire-steps-up-digital-strategy.

⁵ McDiarmid, J. (2013, January 23). Canadian Tire digs deeper into amateur sport, *Toronto Star*. Retrieved from www.thestar.com/business/2013/01/23/canadian_tire_digs_deeper_into_amateur_sport.html.

with the Canadian Olympic Committee and new or expanded deals with other amateur organizations. These arrangements reflect Canadian Tire's shift to a greater presence in amateur sport following its 2011 acquisition of sports retailer Forzani Group Ltd. for \$771 million. This move entrenched Canadian Tire's status in the sporting goods market as well as provided it with access to a younger demographic of Canadian consumers (who like to shop at malls). Forzani continues to serve as an independent unit, operating Sport Chek, Sport Mart, and Athletes World stores.

Some observers believe that a continuing challenge for Canadian Tire is to make it clear in consumers' minds that it offers more than automotive parts, tools, or sporting goods. On the other hand, marketing experts believe that Canadian Tire must also be cautious to not deviate far from its core business—that is, offering Canadians “everyday” household items rather than upscale home décor. As the old adage goes, you can't be all things to all people.

Sorensen sums it up nicely:

Canadian Tire will need to stay on its toes as its territory is further invaded by big U.S. retailers. But despite its sometimes ungainly appearance, there's no reason to think the inverted orange triangle and green maple leaf will disappear from the Canadian landscape anytime soon. It may never be a chic proposition. But neither is weatherproofing windows or fixing a clogged toilet.⁶

In fact, in 2013 Canadian Tire announced that it would launch smaller stores in city centres, admitting that it needed to adopt a new approach to dealing with existing competitors like Walmart as well as combating new entrants like Target. Canadian Tire attempted the small-store concept in previous years. However, when Walmart began opening Supercentres across Canada (each about seven times the size of the new Canadian Tire format), it reconsidered that approach. Given that Walmart has recently begun toying with the “small box” concept (opening smaller, express versions of its big box stores) and with the entrance of Target, Canadian Tire has been open to revisiting just about anything, including a focus on smaller stores in core city shopping areas and malls. The plan is for these new “express” stores to be about 10,000 square feet.

Big or small, Canadian Tire has a lot to be proud of. It has been an iconic figure in the Canadian marketplace for many years. It has understood well the environmental forces that it must confront and address to survive. And for those patriotic Canadian consumers, let's hope this good ol' Canadian retailer sticks around for many more years. Way to go Canadian Tire—may the force(s) be with you, eh!

Objective 1 Identify the key internal forces that shape any business.

leadership How people are managed within an organization.

strategy The decisions made by business managers about how the company will address political, economic, global, societal, competitive, and technological forces.

THE INTERNAL CONTEXT OF BUSINESS

What goes on within the walls of an organization? That is, what comprises the internal context of organizations? In Part 2 of this book, we will consider more closely the internal context of organizations, focusing on four fundamental concepts: the employment relationship, **leadership**, organizational structure, and **strategy**. Looking inside organizations involves a consideration of how people within organizations are managed.

⁶ Sorensen, 2011.

Chapter 2 explores the employment relationship; we will identify and examine the nature of responsibilities that employers have toward their workforce. Chapter 3 considers the notion of leadership and discusses perspectives on managing people, which is particularly important considering that organizations' fates are intrinsically bound to the quality of decisions that are generated inside the organization. Chapter 4 looks at how organizations are designed and why they sometimes decide to undergo dramatic **change**. Chapter 5 introduces the notion of business strategy and its relevance to organizational success or failure.

Exhibit 1.1 illustrates the framework we adopt in this book and also identifies the internal environment of business, which we discuss next.

Exhibit 1.1 Inside and Outside Organizations: The Framework for This Book



The Employment Relationship: Responsibilities Toward Labour

The ability to attract qualified workers and to extract maximum effort from them can be crucial to business success. However, navigating the **labour** relationship can be difficult and is fraught with risks. The context in which the labour relationship operates is a highly complex one. Workers are usually interested in maximizing the income they receive from the sale of their labour, whereas businesses usually desire to maximize profit. These two objectives can clash, creating conflicts that can have negative effects on productivity and profits, as well as the economy and society more generally. Chapter 2 considers the complexities associated with the legal context of managing labour. Societies and economies are influenced dramatically by how work is organized. We will discuss how debates about the best way to organize work are long-standing and influenced by perspectives on markets, power, and the role of the state in capitalist societies. The result is a complex web of rules and forces that businesses must learn and adapt to if they are to operate successfully. The next chapter considers some of these rules more closely, including rules and processes relating to unemployment and the loss of work, and rules that attempt to address Canada's diverse labour force.

change A shift in how an organization operates.

labour One of the five factors of production. Includes all workers in an organization who contribute their talents and strengths to create goods and services.

Leadership and Effectively Managing People

Chapter 3 considers the nature of the members who comprise an organization and how they manage and are managed. It does not matter whether we are talking about a nonprofit organization,



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a small business, or a giant multinational corporation; any type of organization must be managed. Organizations are made up of people and, consequently, this factor is clearly one that we must carefully examine. How do we manage people within the organization? Regardless of your role in organizations, no doubt at some point in your career you will be required to apply some sort of management or leadership skills in the conduct of your job. Simply working in organizations is a reason to be familiar with how organizational life operates and to understand what exactly is involved in the art and science of management. Given the importance of this issue, we will take a closer look at it in more detail in Chapter 3.

Developing a Suitable Organizational Structure

Chapter 4 considers the internal context of the organization with regard to how it is designed and the implications of organizational design and redesign. Organizational structure is a deliberately planned network or pattern of relationships that exists among individuals in various roles or positions. This includes the formal hierarchy of authority, the distribution or grouping of work (for example, into departments) and the rules or procedures that control and coordinate behaviour in the organization.

The **structure** of many organizations has been radically redesigned in recent years. Organizations in just about every industrialized nation have been undergoing change. (See Talking Business 1.1.) While some companies have reduced their levels of hierarchy or

structure A deliberately planned network or pattern of relationships that exists among individuals within an organization. It determines such things as division of labour, span of control, level of formalization, and how centralized decision making is.

TALKING BUSINESS 1.1

Changing GM's Organizational Structure

GM Global Design . . . announced a revised organizational structure and executive appointments that align it more closely with the company's brands across its network of 10 Design Centers around the world.

"This new structure provides a foundation to build and grow the design language for each of our brands moving forward," said Ed Welburn, GM vice-president for Global Design. "It gives our design teams a greater opportunity to create products and brands that have an emotional connection with our customers and that continue to move our company forward."

The benefits of a more brand-focused design organization include:

- Drive stronger—and common—messaging across a brand's portfolio
- Allow designers to better understand—and design for—customers when they live the brand on a day-to-day basis

- Provide for greater parts sharing across brands
- Foster more creativity and provide a clear, single purpose for each design team member.

The revised structure also increases the role of GM's Advanced Design Centers, which are strategically located in the United States, Germany, Korea, China and Australia.

"Strengthening our Advanced Design organization will allow us to help the company develop innovative new technologies and strategies to meet the future transportation needs of the global marketplace," Welburn said. "One thing is clear: Success will require a variety of mobility solutions that are striking both in their execution and their efficiency."

Source: Excerpted from GM press release. (2012, June 18). GM Design announces changes to its global organization and leadership team; moves strengthen brand focus and advanced design capabilities. Available at www.autoblog.com/2012/06/18/general-motors-design-ranks-get-big-overhaul. Reprinted with permission from General Motors Corporation

laid off employees at all levels, others have undergone a concurrent change in their whole business process, while others have simply closed down. To understand what is happening, and more importantly *why* it is happening, we need to understand more about the design or structure of organizations. This is the aim of Chapter 4—to offer insight into the anatomy of organizations and, ultimately, to explain why organizations are being redesigned.

Generating a Winning Business Strategy

Deciding what strategies the organization should pursue is a key task of managers. Managers are continually faced with making decisions, both minor and major, on a daily basis. The aim of Chapter 5 is to describe the nature and purpose of strategic management. The chapter examines issues that are of critical importance to strategic management. What are the key forces in determining an industry's structure, and what are the strategic implications? We will consider the roles of organizational resources and capabilities in firm performance. Our exploration will also include a discussion of corporate strategy and an identification of three generic strategies as well as how organizations go about implementing strategy. This examination reflects a central internal force that all organizations must contend with—the ability to generate a game plan to succeed.

THE EXTERNAL CONTEXT OF BUSINESS

We can refer to the external context of organizations as its *environment*. Management scholars have typically defined the environment of an organization along two dimensions: the organization's **specific or task environment** and the organization's **general environment**. Each factor in an organization's external environment can be considered as existing in two spheres: a specific sphere or environment within which the organization directly operates, and a general sphere or environment that would encompass the external environments of all organizations in a society. The *specific sphere* has been referred to as the environmental domain of the organization. For example, changes in the international environment may be a common factor for all organizations with, say, trade agreements affecting Canadian industry in general. However, some industries may be differentially affected by changes in the international environment via trade agreements. Not all organizations within an industry or within different industries are equally affected by changes in the environment. There are changes that affect all or some industries, and there are changes or factors that influence the direct sphere or environment of specific organizations.

Specific or Task Environment

Any organization is surrounded by **external stakeholders**. These are parties or groups that have direct influence on the organization's ability to obtain resources and generate outputs. Stakeholders have some kind of *stake* or interest in the organization and could include such parties as the organization's customers or suppliers, the labour pool from within which the organization obtains employees, competitors, unions, distributors, creditors, the local public, and the government (see Exhibit 1.2). While not all of these stakeholders may exist or exert influence on every organization, they are the types of factors that potentially constitute the specific environment of an organization.

Objective 2 Identify the forces that compose the specific and general environments of organizations.

specific or task environment The environment within which a particular organization operates, which is ultimately shaped by the general environment and includes stakeholders, customers, competitors, suppliers, and so on.

general environment The environment shared by all organizations in a society, such as the economic and political environments, and technological, societal, competitive and global forces.

external stakeholders Individuals or groups who bear some kind of risk, whether financial, physical, or other, as a result of a corporation's actions. They include such parties as suppliers, the government, and society in general. There are ethical as well as practical reasons to attend to all of their interests, even when they conflict.

Exhibit 1.2 The External Context of Organizations



Objective 3 Discuss the nature of the external forces confronting organizations.

economic forces The economic influences on organizations, such as the state of the economy, unemployment, inflation, interest rates, and gross domestic product. For example, high unemployment numbers may indicate lower overall consumer spending, and business sales could be negatively affected. If sales go down significantly, businesses may need to reduce production, cut costs, or lay off workers.

competitive forces The domestic and foreign competitor influences on organizational decisions. Competitors are organizations operating in the same industry and selling similar products and services. However, competitors may compete in different ways.

General Environment

The sphere surrounding the organization's specific environment is typically referred to as the *general environment*. The forces that make up the general environment ultimately shape the specific environment of the organization. Consequently, the general environment will also influence the organization's ability to obtain resources. General environmental factors typically include economic, competitive, technological, global, political, and societal forces. (See Exhibit 1.2.)

Economic Forces Whether the Canadian economy is experiencing a recession or strong economic health, **economic forces** act as a strong influence on the present and future prospects of any organization. Moreover, given the strong global ties in Canada, we can also consider the international economic environment as exerting an influence on Canadian organizations. Certainly, we understand the strong influence that the United States and its economy exert on Canadian business.

In considering how it will obtain resources from the environment, any organization

must ask the question, "Is the economy healthy or weak?" Organizations are continuously forced to adapt to changing economic conditions. Downsizings are more likely to occur in lean times than in rich. For example, the development of a temporary workforce was partly an outcome of the recession that occurred in the 1990s and the consequent introduction of massive downsizings and layoffs of permanent members of the workforce. Economic changes have also facilitated changes to the nature of the employer-employee relationship. Lifetime employment appears to be a thing of the past. Consider the 1950s or the 1970s—those were times when employment actually meant security. In fact, the dominant model was long-term employment stability. However, a change to these implicit employment promises occurred sometime in the 1980s, when large, secure organizations began to layoff employees and the age of downsizing began. Today, part-time and temporary work arrangements have become much more common than in the past. The economic context of business will be explained in Chapter 6.

Competitive Forces **Competitive forces** operate at two levels for any organization. As mentioned, an organization will have its own set of competitors, yet the force of competition can be viewed from a more general level as well. For example, globalization (which will be discussed elsewhere in this book) opens the floodgates for competitors in many industries. Clearly, the number of competitors and the nature of competition will dictate changes in organizational strategy. Competition, both domestic and foreign, certainly has demanded an

acceleration in innovation among firms in many industries. To compete effectively, organizations must continually create new and better methods of serving customers. So while globalization has opened up larger markets for businesses, it has also facilitated much higher levels of competition. Chapter 7 examines the nature of competitive forces and includes a consideration of the different stages of the industry life cycle model. That chapter also identifies the key drivers of industry evolution and how competitive forces change during the life cycle of a business. What are the key success factors for firms at each stage of the life cycle?

Technological Forces Chapter 7's discussion of innovation acknowledges the importance of **technological forces** that surround organizations. Technology plays a central role in how an organization functions, how it obtains resources, and, ultimately, how effectively it competes. We will consequently examine different types of innovations and explore the relationship between technological evolution and industry evolution. Furthermore, we will discuss the impact of technology on competitive business practices and technology life-cycle models.

The technological environment exerts influence across industries. For example, in the case of Bell Canada, the increase in the number of competitors in the telecommunications industry was partly a consequence of the ability of smaller businesses to enter the industry. Technological advances led to reduced operating costs, which led to more competitors being able to enter the industry; formerly, the costly nature of the sophisticated technology required in this industry created a barrier to entry.

Change in technology is a constant force that permits and demands organizational change. One benefit of technology is increased flexibility in work arrangements. For instance, telework, or telecommuting, essentially means that an employee can work from home thanks to the technology available today. Technology has also facilitated business process redesign or “reengineering,” an issue examined further in Chapter 4.

Global Forces **Global forces**, in many ways, are forces that could be considered part of general economic, political, technological, competitive, or societal forces, but are international in nature. For example, the tragic and devastating events of September 11, 2001, resulted in a chain reaction of international consequences, including changes in economic and political forces acting on organizations. Global events have an increasingly important impact on local organizations, too.

While there is no universally agreed-upon definition of **globalization**, it is useful to consider this concept as a process—that is, a process involving the integration of world economies. The presence of trade blocs reflects the accelerating pace with which nations are integrating their economies. Globalization also includes the globalization of markets—the notion that consumer preferences are converging around the world. Whether it is for products made by McDonald's, Sony, Gap, or Nike, organizations are increasingly marketing their goods and services worldwide. On the other side, production is also increasingly becoming a global affair. Businesses will set up operations wherever it is least costly to do so.

Certainly, international trade agreements are global agreements among governments that are changing the nature and functions of many businesses. A Canadian organization may not simply consider consumers within the domestic borders, but may have a significant consumer market overseas; this demands a knowledge of global societies, global competitors, and other forces that exist on an international level.

The global forces of the general environment underscore the increasingly tangled web of players in the global business context: domestic and foreign competitors, workers,

technological forces The technological environment that exerts influence across industries, playing a central role in how an organization functions, obtains resources, and competes. Changes in technology both permit and demand organizational change.

global forces The global influences on organizations that could be considered as part of the general economic, political, technological, competitive, or societal forces, but are international in nature.

globalization Although there is no universally agreed-upon definition, it may be considered as a process involving the integration of national economies and the worldwide convergence of consumer preferences; the process of generating a single world economic system.

industry, government, national cultures, and economies. How business is conducted in light of trade agreements and global arrangements is a key issue for our entire society, and it is a theme we will explore more fully in Chapter 8.

political forces Governmental influences on an organization's decisions through laws, taxes, trade relationships, and other related political factors.

Political Forces Political forces can exert influence at both the specific and general levels. The government's push toward deregulating many industries was designed to welcome more competitors into the Canadian business sector and facilitate freer trade between Canada and the United States. The reduction in trade barriers worldwide has also opened the doors for the increasing presence of foreign competition in many industries. Deregulation and privatization, discussed in Chapter 9, are clear examples of the importance of considering the effects of governmental changes on business strategy.

Are government regulations facilitating or restricting certain business strategies? The political environment can dictate changes in how a business competes or what services it offers and how they can be offered. As we will discuss in Chapter 9, the deregulation of protected industries in the 1980s and 1990s created competition for companies where no real competition had previously existed. Industries such as telecommunications, banking, energy, and aerospace were dramatically affected by these governmental/regulatory changes. As the dominant companies in these industries were forced to compete in an open market, some responded by downsizing their workforce.

In a general sense, the traditional relationship of government with business is clearly undergoing change. The trend toward increased government involvement after World War II seems to have reversed by about 1980. In fact, some observers have suggested that the massive disposal of government-owned assets and the reduction of government controls in the business sector indicate a minor revolution of sorts. We will examine this issue in more detail in Chapter 9.

societal forces A wide range of influences in society in general, including, for example, changes in public opinion on ethical issues like organizational justice (how employees are treated), that affect all organizations and to which businesses must respond.

Societal Forces Societal forces have an important impact on organizations. The nature of a society certainly is an entrenched part of any organization's general environment. For example, we have witnessed an increasing concern for individual welfare in the workplace as societies become more cognizant of human rights and how people should be treated. Consequently, the workplace increasingly emphasizes organizational justice—that is, how employees are treated. This has translated into more laws governing fairness in the workplace. One such area that has been dramatically affected is compensation. Pay equity has been a key issue examined in redressing inconsistencies in pay treatment between men and women. We have also witnessed an increasing emphasis on merit-based pay and pay for performance, which attempt to more closely link actual effort to performance instead of seniority-based pay, which bases pay solely on the number of years an employee has been with the organization.

Businesses must respond to society. Consumer tastes change, for example, and businesses must adapt to such changes. Similarly, the types of organizations that serve societal demands can change. The aging population in Canada suggests that greater emphasis needs to be placed on industries such as the health care sector. In addition, society has a certain set of ethics or values, and these can influence the type of behaviour that organizations will manifest in that society. From a societal standpoint, it is not difficult to understand the importance of adequately addressing ethical behaviour of business organizations and their constituents. All sectors of society, including organizations themselves, are drastically affected by many forms of unethical behaviour. There is a growing belief that organizations are social actors responsible for the ethical and unethical behaviour of their employees.

Critics of business argue that organizational leaders must examine more closely the “moral sense-making” within organizations and responsibilities to external constituents. The tolerance of unethical behaviour in a society would seem to be a precursor to the acceptance of corporate unethical behaviour. This is an issue that we will more fully explore in Chapter 10, which also emphasizes the requirement for organizations to address stakeholders in the global context.

From the description of the external environment, it can be observed that there is overlap between the general environment and the specific environment. An organization may have a specific market niche or set of consumers, but demographic changes in the general environment, such as an aging society, will certainly translate into changes in consumer tastes at the specific level. Similarly, as noted above, the government’s aim to reduce trade barriers at a national level can translate into regulatory changes or increased competition within an organization’s specific environment. This underlines the importance of understanding the impact of both the general external environment and the specific environment of the organization.



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Sustainability

What is the most critical issue in the world today that needs to be solved? The answer will likely depend on whom you ask and where you live. For example, there is less fresh water to drink and less viable farmland to grow food on than there was 100 years ago. Sources of oil continue to be extracted worldwide as the number of cars increase. And the climate is getting steadily warmer across the globe. Preserving the environment for future generations to enjoy and for the economy to prosper is clearly an important issue. What currently threatens the planet? Two key concerns are the depletion of natural resources by overconsumption and the ongoing release of greenhouse gas emissions. As a society, how do we continue to grow and prosper while also ensuring that our way of life is sustainable now and in the future?

Traditionally, growing the economy and protecting the environment were viewed as two separate goals, often conflicting with one another. Why should businesses want to be sustainable? What are the motivating factors for businesses to implement sustainable practices? While the primary goal of a business is to make a profit, sustainable practices can contribute to this goal and help create value on a number of levels. Business leaders now recognize that society, the economy, and the environment are interrelated systems that have an important effect on one another; one system cannot survive without the others.

Today, sustainable development can be viewed as a long-term approach to balancing the needs of people while growing the economy and preserving the environment. In a general sense, **sustainability** involves the relationship between the three Ps: people, profits, and the planet (also referred to as the three Es: social equity, the economy, and the environment). This accounting framework is known as the **triple bottom line**. However, since the movement toward sustainability is still relatively new, the development of a common standard of global measures is still underway. What measures currently exist and how can businesses

sustainability In business, the relationship between the three Ps: people, profits, and the planet.

triple bottom line An accounting framework that can be voluntarily used by organizations to report performance on social, economic, and environmental results for a project or reporting period.

implement more sustainable practices? There are a number of indicators of sustainable development that measure changes on a national or global basis that can be examined.

Implementing sustainable business practices is a new challenge many managers face. Time, money, and lack of knowledge are a few obstacles. Yet sustainable businesses that achieve their economic, social, and environmental goals can expect to receive many benefits. Sustainable business practices have proven to help businesses in the long term by reducing costs, reducing risks, and improving consumer relations. Clearly, environmental degradation cannot quickly be fixed, and businesses need to continue to consider their impact on the environment and society now and in the future. All of these issues will be addressed in Chapter 11.

The Challenge of Change

We are a society of organizations—from our hospitals to our schools to our multinational organizations, it is hard to imagine life without organizations. And, for better or worse, those very institutions and organizations that we have grown up with are continuing to undergo dramatic change. In fact, over the years, we witnessed tremendous change and turmoil across our organizational landscape—from bankruptcies of once great Canadian companies like Nortel, to massive reductions in the workforce of many well-known organizations such as GM and Bell Canada, to the rise (and possible fall) of successful Canadian companies like Research In Motion (now known as BlackBerry). What is going on?

While predicting the next big change may be futile, sensible questions that can be addressed include, “What are the sources of change directed at organizations?” “How do these changes affect the nature of organizations and work?” In every chapter in this book, from management through to globalization, we recognize that just about every important area of business is undergoing some kind of change. Chapter 12 considers how organizations respond (or fail to respond) to these shifts in the environment of business. It’s all about adaptation and change.

Organizations that effectively change or adapt to their environment are ones that have first “learned” —they have learned how to recognize the need for change, and they have learned what actions are necessary to adapt. Some management scholars have suggested that organizational learning represents the collective experience of individuals within the organization and happens when organizational procedures change as a result of what has been learned. **Organizational learning**, in this sense, involves a three-stage evolution in which the highest stage incorporates three aspects of learning: adapting to the environment, learning from employees, and contributing to the learning of the wider community or context. This idea will be explored more fully in Chapter 12.

The ability of organizations to adapt to and change with a changing environment is dependent on the ability of their members to change and adapt. The best business leaders are essentially facilitators of change. Such facilitators are individuals with vision who can encourage others to leap into a new paradigm—a concept we will also examine in Chapter 12.

organizational learning The detection and correction of error, or the collective experience of individuals within the organization that results in changes in organizational procedure. Three aspects of learning are adapting to the environment, learning from employees, and contributing to the learning of the wider community or context. Two types of learning are single-loop learning and double-loop learning.

Objective 4 Explain the importance of each of the external forces within the Canadian business context.

THE CANADIAN CONTEXT: HOW’S BUSINESS IN CANADA, EH?

How is business doing in Canada? Some economists believe we are doing well; others believe Canada’s economy is slowly contracting and losing its competitive edge in the growing global economy. Some factors that are important to a country’s success in the global marketplace

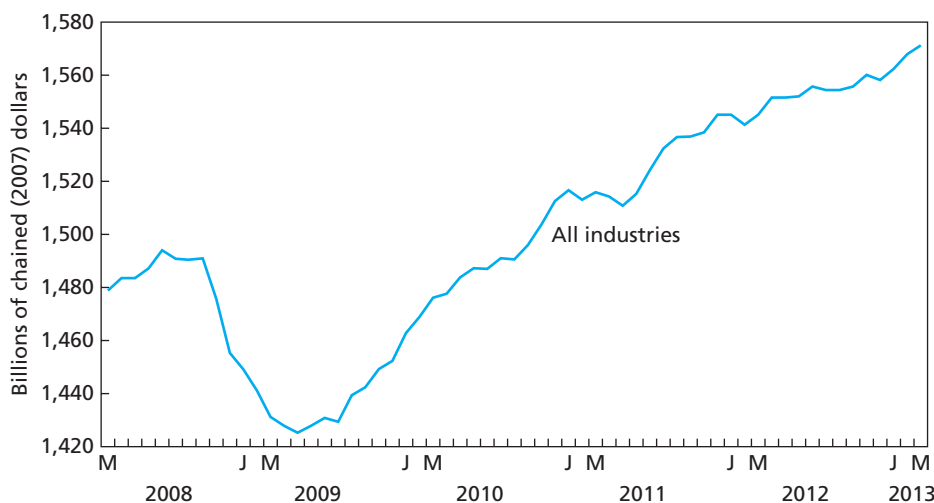
identified by economists include a country's need for strong trading partners, low corporate taxes, an educated and skilled workforce, a stable financial and banking system, and a sustainable competitive advantage. Let's consider how business is doing in Canada in these terms by revisiting each of the external environmental forces with regard to the Canadian context.

Economic Forces in Canada

What are some of the indicators of the current state of health of the Canadian economic scene? One indicator of the health of the economy is **gross domestic product (GDP)**: the total value of a country's output of goods and services in a given year. The money that is earned from producing goods and services goes to the employees who produce them, to the people who own businesses, and to the governments in the form of taxes. The general trend of governments worldwide is to reduce their share of GDP. Obviously, it is good for GDP to grow: From 1979–1989 Canada's GDP grew about 3.2% annually. The compound annual growth of GDP between 2002 and 2011 was 2.6%. Currently, Canada's economy is expected to see compounded annual growth of 2.5% until 2025. (See Exhibit 1.3 for GDP growth between 2002 and 2011.) Canada experienced solid economic growth between 1993 and 2007. However, it went into a severe recession in 2008–2009, but has since emerged strong after this global financial crisis ended.

The future health of the Canadian economy, as in most economies, is continually the subject of speculation. It appears that economists are not necessarily more accurate in their predictions of economic well-being than are those looking into the proverbial crystal ball. Nonetheless, it is crucial to understand what underlying forces are ultimately shaping the state of our business system in Canada. This amounts to distinguishing between short-term changes in the domestic economy and ongoing trends in the nature of the business enterprise system. It may be more manageable for us to consider what has been going on around us in recent years and assess what conditions will continue to persist in the coming years.

One important economic factor is the unemployment rate. In Canada, the unemployment rate increased sharply in the early part of the 1990s because of the severe 1991–1992 recession and the steepest drop in economic activity since the Great Depression of the 1930s. While much of the 1990s was not bright for employment, we have witnessed vast



gross domestic product (GDP) The total value of a country's output of goods and services in a given year.

Exhibit 1.3 Gross Domestic Product (GDP) and GDP Growth

Between 2002 and 2011, GDP for all industries in the Canadian economy increased from \$1,068 billion to \$1,266 billion. In each year during this time period, GDP growth was positive with the exception of 2009. The compound annual growth rate of GDP between 2002 and 2011 measured 2.6%.

Source: Statistics Canada. (2013, March 31). Canadian economic accounts, first quarter 2013 and March 2013. *The Daily*. Reproduced and distributed on an "as is" basis with the permission of Statistics Canada. Canadian economic accounts, first quarter 2013 and March 2013.



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improvements in recent years. By 1999, the unemployment rate dropped to 7.6%; in 2005 it dropped to 6.7%, which was the lowest level achieved in three decades. This decrease in unemployment continued to drop in 2007, reaching a low of about 6%. (See Exhibit 1.4.)

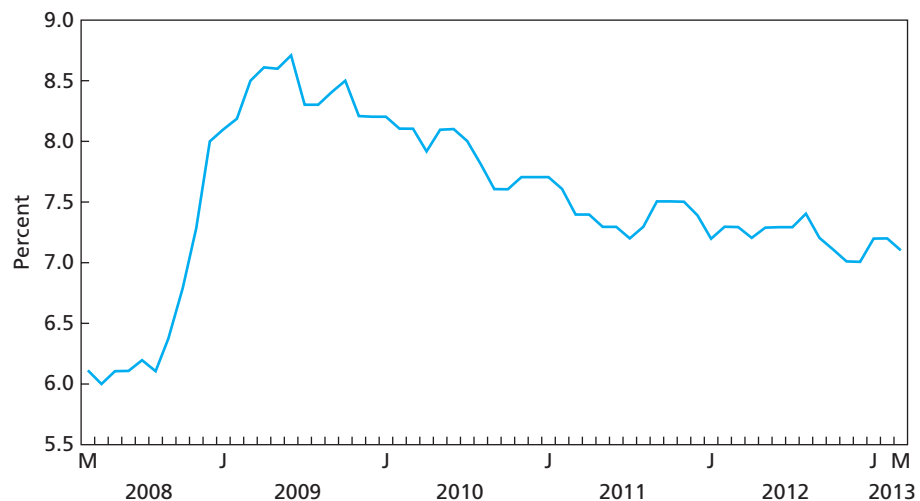
The soundness of Canada's banking system is another important economic factor for Canada's economy. In 2010, the World Economic Forum ranked Canada's banking system as the world's soundest for the third year in a row.⁷ This type of international recognition is good for Canada because it gives businesses, investors, and consumers the confidence that Canada is a safe and stable place to conduct business.

Why are Canadian banks more secure than banks in other countries? The Canadian Bankers Association attributes this financial stability to three key factors: Canada's banks are well regulated, well capitalized, and well managed.⁸

Canada's Banks Are Well Regulated Under the federal government, two primary regulatory bodies oversee banking activities in Canada: the Office of the Superintendent of Financial Institutions (OSFI) for prudential regulation, and the Financial Consumer Agency of Canada (FCAC) for consumer issues. The Canadian Bank Act is also reviewed and updated every five years to reflect changes in the industry. In comparison, the United States has a much more complex arrangement of regulators, but with less stringent rules. After the US economic collapse in 2009, the US federal government had to bail out many of its banks with billions of dollars to prevent bankruptcies and a potential economic depression. Similar

Exhibit 1.4 The Unemployment Rate in Canada, 2008–2013 (percent of labour force)

In 2009, the unemployment rate was 8.3%. Between 1976 and 2009, the unemployment rate reached its highest levels in 1983 (12.0%) and 1993 (11.4%), following two major recessions. In 2007, Canada recorded its lowest unemployment rate (6.0%) since the mid-1970s. By May 2013, the unemployment rate was 7.1%.



Source: Statistics Canada. (2013, May). Labour Force Survey, May 2013. *The Daily*. Reproduced and distributed on an "as is" basis with the permission of Statistics Canada.

⁷ Canadian Bankers Association. (2010, September 9). Good news for all Canadians: World Economic Forum again ranks Canada's banks as the world's soundest. Retrieved from www.cba.ca/en/media-room/65-news-releases/536-good-news-for-all-canadians-world-economic-forum-again-ranks-canadas-banks-as-the-worlds-soundest.

⁸ Canadian Bankers Association. (2010, May 14). Canada's strong banking system: Benefiting Canadians. Retrieved from <http://cba.stage6.industrialmedia.ca/en/media-room/50-backgrounders-on-banking-issues/469-canadas-strong-banking-system-benefiting-canadians>.

bank bailouts occurred across Europe. Canadian banks, however, did not require any government assistance and kept doing business as usual throughout the crisis.

Some economists blamed the US mortgage lending system for the collapse. There were many high-risk mortgage products in the United States, which Canadian regulators did not allow. Canadian bank mortgages also require at least a 20% down payment for a home or the mortgage would need to be insured; this requirement was not mandatory in the United States. Today, the US government is seeking bank regulation reform and is looking to Canadian models to help improve its system.

Canadian Banks Are Well Capitalized Canada has also been commended for the fact that its banks are well capitalized. This means that banks hold sufficient reserves to cover potential defaults on loans and other losses. According to Erik Heinrich, “the average capital reserves for Canada’s Big Six banks—defined as Tier 1 capital (common shares, retained earnings, and non-cumulative preferred shares) to risk-adjusted assets—is 9.8%, several percentage points above the 7% required by Canada’s federal bank regulators.”⁹ Canada even exceeds international norms and surpasses the Bank for International Settlement’s requirements.¹⁰

Canadian Banks Are Well Managed Although Canadian banks may not have the same level of competition (as US banks) to motivate them to succeed, they have remained well managed. Canada’s six largest banks (known collectively as the “**Big Six**”) include the Canadian Imperial Bank of Commerce (CIBC), Scotiabank, TD Canada Trust, Bank of Montreal (BMO), Royal Bank of Canada (RBC), and National Bank of Canada. Investment advisers frequently refer to these companies as Canada’s blue-chip stocks. Historically, these companies have proven to be safe and conservative investments that usually profit year after year.

Big Six Canada’s six largest banks, including CIBC, Scotiabank, TD Canada Trust, BMO, RBC, and National Bank.

Why can the Big Six banks be relied upon to be consistently profitable? Stringent lending requirements constitute one factor that has proven effective in preventing huge losses. According to the Canadian Bankers Association, “in a survey by the Strategic Counsel, 81% of respondents believe that prudent lending is a key reason why Canadian banks have performed better than their international peers.”¹¹ But are Canadian banks as competitive as they can be? Can they compete on a global scale? Here are three challenges industry analysts point to that Canada’s banking industry needs to overcome in order to become a successful global competitor.

1. *Canadian banks are less competitive:* Some analysts believe that Canada’s banks pay a cost for being safe. They tend to take fewer risks and, therefore, are not high-growth companies. In Canada, the banking industry is more stable, but it does not have the same competition that other countries do. The Canadian financial market is dominated by a few large players—the Big Six. Although consumers have begun to see smaller players enter the market, there have been few so far. President’s Choice Financial (PCF), for example, offers many of the same banking services as the Big Six, but it does not have the same number of in-person branches that many of the traditional banks have. PCF provides mainly phone and online services so it can reduce overhead expenses and offer customers greater benefits. With lower

⁹ Heinrich, E. (2008, November 10). Why Canada’s banks don’t need help. *Time*. Retrieved from www.time.com/time/business/article/0,8599,1855317,00.html.

¹⁰ Canadian Bankers Association (2010, May 14).

¹¹ Canadian Bankers Association (2010, May 14).