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# MGTA03 UTSC TEXTBOOK

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Notes for Chapters 1-9

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## Ch. 1: Introducing the Contemporary Business World

- Business: organization seeking to earn profit by providing products (may be tangible or service).
  - Profit: money that remains after a business' expenses (money spent in production and running the business) are subtracted from its revenues (money earned through sale of products).
- Economic system: way which nation allocates resources among citizens. Differ in terms of resource ownership and resource control.
  - These resources are call "Factors of Production" (5):
    - Labour (human resources) and the skills of a workforce
    - Capital (financial resources) needed to start and run an enterprise.
    - Natural Resources: all physical resources.
    - Information Resources (specialized knowledge): market forecasts, demographics, help to achieve business goals.
    - Entrepreneurs: accept risks and opportunities; manage all other factors of production in the firm.
  - Types of Economic systems:
    - Command Economies (centralized government, government owns most industries), "communism" (government owns all industries), socialism (only some major industries are controlled).
    - Market Economies (individuals make decisions about factors of production): "market" (mechanism for exchange), freedom of choice widely enjoyed.
      - Capitalism: Political idea with private ownership and encouragement of entrepreneurship.
    - Mixed-Market Economies: most economic systems, elements of both command and market. Current trend towards "privatization" (transfer of government activities to public sector because government-managed industries are inefficient) and deregulation (reducing laws that affect business activities).
  - Governments influence business as 6 things:
    - Customers (Eg: office supplies, military supplies)
    - Competitors (Eg: Crown corporations owned by government compete with private sector)
    - Regulator:
      - Protecting Competition: Eg: ensuring healthy competition, protecting smaller firms
      - Protecting Consumers: Eg: safety standards, warning labels
      - Achieving Social Goals: Eg: safe workplaces, employment insurance

- Protecting Environment: Eg: laws governing emissions and waste
  - Taxation Agent: Revenue taxes fund government programs, either Progressive (higher tax rate for higher incomes) or Regressive (lower incomes pay higher percentage of income). Restrictive taxes to control certain activities (Eg: alcohol).
  - Provider of Incentives: Eg: subsidies, data on Stats Canada, export insurance
  - Provider of Essential Services: Eg: healthcare, highways, economic stability plans
- Demand and Supply:
  - Demand: willingness and ability for buyer to purchase product
    - Law of Demand: buyer purchases more when price drops
  - Supply: willingness and ability for producer to offer product
    - Law of Supply: sellers offer more (more supply) when price increases
  - Demand and Supply Schedule: relationships between demand and supply at different price levels.
    - Demand Curve: how many units bought at different prices
    - Supply Curve: how many units offered at different prices
    - Market price/equilibrium price: intersection of both curves, profit is maximized.
  - Surplus: supply exceeds demand, money lost on unsold product
  - Shortage: demand exceeds supply, money lost on potentially sold product. (Increase in criminal behaviour also occurs).
- Market economies rely on the Private Enterprise System characterized by 4 things:
  - Private property rights (individuals own resources used to create wealth)
  - Freedom of Choice (Eg: choosing who to hire, when and what to sell)
  - Profits (primary motivation for risk-taking entrepreneurs)
  - Competition (creates a push for efficiency and differentiation to gain advantage)
- Degrees of Competition:
  - Perfect Competition (Eg: Canadian Agriculture):
    - Many small firms so that no one can influence the price of the product. Prices set exclusively from supply and demand.
    - Products identical among competitors
    - Easy entry/exit into the market
  - Monopolistic Competition (Eg: Fast-Food Restaurants) do not confuse with “monopoly”
    - Products offered from each firm seem to differ via “branding”. Offers firms some control over pricing. Some product differentiation.
    - Many firms, but less than in perfect competition
    - Fairly easy entry/exit.

- Oligopoly (Eg: Airline industry)
  - Difficult and capital-intensive entry into the market.
  - Few competitors, products may be similar or different.
  - Some control over prices, but one discount/hike will result in all the other firms copying in order to compete.
  - Typically globalized organizations.
- Monopoly: (Eg: Liquor) do not confuse with “monopolistic competition”
  - No competitors, one firm. Large control over price.
  - Entry regulated by government.
  - Natural Monopoly: government designated monopoly because more than one producer would be wasteful (Eg: power generation because running 2 sets of power lines would be wasteful).

## Ch. 2: Understanding the Environment of Business

- **External environment** everything outside an organizations boundaries
  - Managers must understand this environment if the business is to compete within it
- **Economic environment** conditions of economic system the organization operates within
  - Eg: low inflation, moderate growth, moderate unemployment
    - Low inflation: cost of supplies is constant but organization can't increase prices.
- **Business cycle:** patten of short-term up/downs in an economy (expansions and contractions)
  - **Recession:** aggregate (grossed, combined) output, measured by real GDP, declines
    - **Depression:** severe/long-lasting recession
- **Aggregate output:** total quantity of goods/services produced by economic system in a given period.
  - Increase in Aggregate output signifies an economic expansion
    - A higher **standard of living** results when aggregate output grows faster than population (increased **output per capita** and more services people want).
    - **Standard of living:** total quantity/quality of the goods and services that can be purchased by a country's citizen with the currency used in their economic system.
- **Gross Domestic Product (GDP):** total value of all goods/services produced within given period of time by national economy through *domestic factors of production*.
  - Going up: growth
- **Gross National Product (GNP):** same, but *regardless of where the factors of production are located*.
  - Eg: includes profit earned *abroad* by a Canadian company. Conversely, those profits are included in *the abroad country's GDP*, not GNP.

- Eg: wages paid to Brazilian workers are part of Brazil's GNP even though profits are not.
- **GPI: Genuine Progress Indicator:** treats activities that harm our environment/quality of life as *costs*, Eg: even if an oil spill creates jobs to clean up, it is assigned a negative value.
- **Real GDP:** *Real growth rate of GDP* (the preferred method of calculating national income/output) is *adjusted for inflation and change in country's currency value*. **This is what counts.**
  - *Growth depends on output increasing at faster rate than population.*  
Therefore, standard of living improves.
- **GDP per Capita:** divide GDP by the population.
- **Real GDP (definition above):** GDP has been adjusted. **NO ADJUSTMENT=Nominal GDP:** measured in *current dollars* OR with all components valued at *current prices*.
- **Purchasing power parity:** exchange rates set so that prices of similar products in different countries are about the same. It gives a better sense of standards of living worldwide.
- **Productivity:** Measure of economic growth
  - compares how much a system produces to the factors of production used
    - Value of Output/Value of Input.
  - Prices in productive industries go down, because less factors of production are used.  
Therefore, standard of living increases.
  - ***Standard of living improves only through increases in productivity***
  - Real growth in GDP reflects productivity growth.
- **Balance of Trade-** Country's exports – it's imports
  - Positive balance helps economic growth
  - Negative balance of trade inhibits economic growth. A.K.A. *trade deficit*:
    - *Creditor nation* has positive
    - *Debtor nation* – money that flows out of a country can't be used to invest in productive enterprises either at home or overseas
- **National Debt-**amount of money that government owes its creditors.
  - **Budget deficit-** government spends more than it takes in
  - Selling *bonds* is a way for government (Eg: Canada) to raise money.
    - The more money that the government borrows, the less is available for the increase of productivity of private enterprise.
- **Stability-** amount of money and quantity of goods produced are growing at about the same rate. *The goal in an economic system.*
  - 3 Threatening factors to stability:
    - **Inflation-** widespread price increases throughout economic system.
      - Amount of money injected into system is more than output, therefore prices go up. Higher prices then lower amount of purchasing power.
    - **Consumer Price Index-** measures inflation

- Measure of prices of typical products purchased by consumers in urban area. A “shopping cart” of 600 typical items, these items change to reflect changes in spending habits.
- **Deflation-** period of generally falling prices.
  - Bank of Canada reduced interest rates to increase demand
    - Either b/c productivity increases (good) OR consumers have high debt and do not wish to purchase (bad).
- **Unemployment-** level of joblessness among people actively seeking work.
  - *Frictional unemployment:* out of work while looking for new job
  - *Seasonal unemployment:* out of work b/c of job’s seasonal nature
  - *Cyclical unemployment:* out of work b/c downturn of business cycle
  - *Structural unemployment:* they lack the skills needed to perform available jobs
    - In low unemployment: shortage of labour, raise wages, profit margins fall, prices increase and more money consumers have to spend is erased by higher prices. Purchasing power falls.
    - In high unemployment: wages get too high, cut workers; therefore demand will go down b/c less money consumers have to spend. Government then tries to correct by cutting taxes, spending more money (injecting into the system) *prices go up as well* b/c of increased consumer demand, then inflation, and purchasing power declines.
- Government manages the Canadian economy through fiscal and monetary policies. These are also referred to as “stabilization policy” (goal to achieve stability).
  - Fiscal policies: means by which government collects and spends revenues.
    - Tax cuts stimulate economic growth.
  - Monetary policies: mean by which government controls nation’s money supply.
    - The Bank of Canada has the power to change the money supply through:
      - Higher interest rates reducing spending (tight monetary policy)
      - Lower interest rates increasing spending (easy monetary policy)
- 3 serious issues for Canadian business: taxation, value of Canadian dollar, and need for skilled workers. Trend toward higher quality and planned obsolescence. Increasing public demand for environment respect and fair competition.
- Michael Porter’s 5 Forces Model: analyzes sources of competitive pressure to help managers find a competitive strategy.
  - Rivalry Among Existing Competitors: business must differentiate itself from competitors
  - Threat of Potential Entrants: is the market easy to enter? Easy entry increases competition.

- Suppliers: bargaining power of suppliers in relation to buyers. In an industry where there are few substitute products, suppliers have more power.
- Buyers: bargaining power of buyers in relation to suppliers. High power if there are numerous suppliers.
- Substitutes: altogether substitute products available makes industry more competitive.
- Core competencies: areas in which an organization best competes and creates most value for its owners. Outsourcing is a publicized recent trend (paying other firms/suppliers to perform certain business processes Eg: running a cafeteria, transcription, etc.).
- Acquisition: firm buys another firm.
- Merger: consolidation of two firms, more collaborative. Vertical merger: one company is supplier/distributor of the other. Horizontal Merger: direct competitors merge.
- Friendly takeover: the management welcomes the firm's buyout (cash need or other benefit).
- Hostile takeover: one company buys enough of another's stock to take control.
- Divestiture: company sells part of itself to another corporation. Eg: selling off toothpaste section of a toothbrush company.
- Spinoff: company setting up a corporate unit as an independent corporation because it would be more valuable in that form.
  - Subsidiary corporation: owned by another corporation (the parent corporation).
- Strategic Alliances/Join Venture: two or more corporations/persons undertake one project.
  - Advantages: risk is spread, gain resources of strategic partner.
- Employee Stock Ownership Plan (ESOP): employees own large share of corporation through trusts established on their behalf.

### Ch. 3: Understanding Entrepreneurship, Small Business, and New Venture Creation

- **Small business:** owner managed business with *less than* 100 employees
  - Most businesses in Canada are small businesses (same in US)
  - **Private sector:** portion of economy made up of organizations not owned/controlled by government.
- **New Venture/firm:** recently formed commercial organization providing goods/services for sale (within prev. 12 months) and adopted one for 4 main organizational forms.
  - In considering stats on new ventures, they exclude businesses without employees
- **Jobs:** 98 percent of employer business are small (Canada), but 49 percent of private sector workforce works for small businesses.
  - Start-ups account for the most growth

- **Entrepreneurship: *process*** of recognizing opportunity in the marketplace and mobilizing the resources to capitalize on it
  - **Entrepreneur:** personal who recognizes and seizes opportunities
  - What person *does* more important than who person *is*.
    - *Intrapreneurs* within an existing organization, people who create something new
      - Eg: Swiffer from Proctor and Gamble
- The Entrepreneurship process:
  - *Idea Creation:* most ideas come from work experience
  - *Screening:* weeding out 'dead-end' ventures
    - *Idea adds value for customers:* solves a significant problem
    - *Idea provides competitive advantage:* better than competitors
    - *Idea Marketability and Financial Viability:* whether sales will lead to profits
      - **Sales forecast:** estimate of how much will be purchased over specific period of time.
      - Estimate of *start-up costs, a cash budget, and income statement, balance sheet*
    - *Idea has low exit cost:* can be shut down without sig loss in money time reputation etc.
      - Eg: if profit expected after a number of years, there is high exit cost because it cannot be easily abandoned
  - Developing the Opportunity
    - 3 strategies: new service, new twist to service and compete, or franchise
      - **Franchise** is agreement where franchisee purchases right to sell product of the seller
    - Business plan proposes entrepreneur's business venture
      - Describing what lets it compete, creates the needs/wants, in quickly changing markets it's important to get right in before competition
  - Accessing Resources: *bootstrapping:* doing more with less
    - *Debt*
      - Borrowed money, a loan, with interest charges.
      - Maintain control, risky and harder to get
      - *Collateral* to back up the loan (assets), subject to seizure if loan not repaid on the terms
        - *Financial institutions* like banks (risk adverse). Usually bank loans in form of personal loan, not business. Higher interest rates from finance companies.
        - *Suppliers:* Trade Credit is when goods are provided and billed at a later date. Frees up money.
    - *Equity*

- Money invested, by entrepreneur. Other people, into the business
- Ownership interest, giving up control
- More appropriate for start-up due to high risk
  - *Personal savings* draw on their own finances
  - *Love money* from family in merit of the business concept
  - *Private investors* called *angels*. Recycling their wealth by investing in start-ups. Not over 100,000\$.
  - *Venture capitalists* take money from great pools of venture capital. High risk, only invest in high-return situations. Much fewer than *angels* financing new firms.
- Other ideas: leasing equipment to protect against obsolescence, renting office things.
- Teamwork
  - Is a team desirable or necessary?
    - The size and scope of the venture
    - Personal competencies (Eg: sales, management, technical skills)
      - Complementary skills
    - Small founding teams better than larger ones
    - Solo may be realistic option, odds of survival are higher with a team approach.
- Entrepreneur-Opportunity fit: personal interest, personal skills, is further training or a team needed?
- Opportunity-resource fit: can the resources be acquired and be changed as needs change? Some ventures are just not viable regardless of alternatives considered
- Entrepreneur-Resource fit: entrepreneurs connecting to resources Eg: in the same industry, a respected member will gain more investors/good employees.
- Starting up: either start from scratch, buy existing, or buy franchise
  - Buying a business
    - Odds of success are better, existing track record, poor reputation and things “swept under the carpet” in terms of financial shape.
    - Taking over a family business: otherwise unobtainable resources, strong reputation and goodwill that results in great relationships. Employees loyal.
      - Problems result in prices paid, who will take it over problems with Eaton’s (no adapting to changing market conditions)
  - Buying a franchise
    - *Franchise agreement*: stipulates the duties of the franchisee and the franchiser
    - Both franchiser and franchisee benefit from the agreement

- Rapid growth for the franchiser, share advertising cost, efficient advertising, big-business management over a small business, not building from scratch, etc.
- Success and Failure in Small Business
  - Success: hard work, drive education, market demand for product, managerial competence, luck
  - Failure: managerial incompetence or inexperience, neglect, weak control systems (business cannot stay on track, signalling of impending problems), insufficient capital (Amazon didn't earn a profit for 10 years, still required capital).

## Ch. 4: Understanding Legal Forms of Business Organization

- Sole Proprietorship: owned by one person. Majority of businesses in Canada, small portion of total revenues.
  - Advantages: Easy to form, personal tax benefits, self-starters.
  - Disadvantages: Personal unlimited liability dissolves on owner's death.
- Partnership: two or more people combine resources to operate a business. All partners personally liable.
  - Limited partnership: at least one general partner (active management) and limited partners (liability limited to investment, become general if they participate in the business).
  - Advantages: combination of skills, loan acquisition, individual taxation.
  - Disadvantages: unlimited liability, transferring ownership, strategy disagreements.
- The Corporation: separate legal entity (except cannot vote or marry). Owner's liability limited to their investment.
  - Shareholders: buy shares, elect board of directors.
  - Board of Directors: oversees the corporation and its operation in the best interest of the shareholders. Choose the President (responsible for internal management) and other Officers to run the business. Sets policies on paying dividends, financing, executive salaries, etc.
  - Chief Executive Officer (CEO) responsible for overall performance.
  - Inside directors: members of board of directors that are also full-time employees of the corporation. Directly involved in its operation.
  - Outside directors: members of board of directors that are not employees of the corporation such as accountants and attorneys.
  - Types of Corporations:
    - Public: shares of stock widely available for sale to general public.
    - Private: a few shareholders and stock is not for sale to general public (most new corporations). Initial Public Offering (IPO) to raise additional money and become public by offering shares for the first time.

- Public corporations may “go private” in which is the reverse of an IPO.
- A Corporation may convert to an Income Trust where most earnings are distributed to investors to reduce its income tax liability. Less popular due to new taxation laws.
- Forming a corporation: articles of incorporation are drawn up and name must have word “Limited”, “Corp.”, etc. displayed.
- Advantages: limited liability (to personal investments, courts cannot touch personal assets), continuity, shares to raise funds, and continuity of legal status eases loan acquisition.
- Disadvantages: high cost to incorporate, require legal help in meeting government regulations and are more heavily regulated than proprietorships or partnerships.

## Ch. 5: Understanding International Business

- Globalization is the global integration of markets.
- Imports are products made abroad and sold in Canada.
- Exports are products made in Canada and sold abroad.
- International trade is increasing in popularity. The old trend was to protect domestic business.
- The World Bank divides countries into 4 groups based on per capita income (average income per person in a country):
  - High-income (Canada); Upper-middle-income (Mexico); Low middle-income (China, potentially attractive markets); and, Low-income countries (less attractive markets)
  - Regions:
    - North America: Canada and US are each other’s largest trading partners.
    - Europe: Eastern Europe becoming increasingly important, 1992 European Union to remove fragmentation and trade barriers.
    - Asia-Pacific: Major source of competition for North American firms.
- Competitive advantage among nations takes on 3 forms and explain why countries partake in international trade:
  - Absolute advantage is a nation’s ability to produce something more cheaply or better than any other country.
  - Comparative advantage is a nation’s ability to produce some goods more effectively than others.
  - National Competitive Advantage is a newer, more widely accepted model. Four factors encourage international trade. They may be referred to as a “national diamond” (4 points):
    - Factor conditions: factors of production of a country.
    - Demand conditions: large domestic consumer base forming strong demand.

- Related and supporting industries: strong local industrial suppliers or industrial customers.
    - Strategies, structures, and rivalries: industries that stress cost reduction, higher quality, and innovation.
  - International competitiveness: ability of a country to generate more wealth than its competitors in world markets.
- Import-Export Balances:
  - Balance of trade is the difference in value between a country's exports and imports.
    - Trade surplus (more exports) is favourable.
    - Trade deficit (more imports) is unfavourable.
    - Canada becoming increasingly dependent on the US. Canada has a trade surplus only because of its activity with the US.
  - Balance of Payments: flow of money into or out of a country. Canada has a longstanding unfavourable balance of payments. Calculation involves:
    - Our exports plus tourist spending in Canada; foreign investments in Canada; and, earnings from our foreign investments minus:
    - Our imports plus tourist spending abroad; our foreign investments; earnings from other nation's foreign investments in us; foreign aid grants; and, military spending abroad.
- Exchange rate: ratio of currency to another. Previously fixed exchange rates did not fluctuate. Today, floating exchange rates fluctuate with market conditions. Demand for Canadian dollar is high.
  - Euro: a currency shared among most members of the European Union.
  - Exchange rates and competition: stronger currency results in difficulty in exporting. When currency falls, balance of trade should improve.
- Management of business more difficult when it operates in several globally scattered markets.
  - Demand for products abroad, and necessary product adaptations, should be considered.
- There are 3 general levels of involvement for international businesses:
  - Exporters and Importers where product sale and production occur in different places.
  - International firms: conduct a significant portion of their business abroad and maintain manufacturing facilities overseas. Central concern is still domestic market.
  - Multinational firms: control assets in two or more feign countries. Location of headquarters irrelevant. Increased protests against their activities.
- 5 strategies for activities of international business:
  - Independent Agents: foreign individuals or organizations that act as sales representatives abroad.

- Licensing Arrangements: granting an organization exclusive rights to manufacture or market products. Exporter receives royalties (a percentage of the sales).
- Brand Offices: instead of developing relationship with foreign companies, brand offices offer direct control and more public visibility. Potential customers tend to feel more secure if there is domestic presence.
- Strategic Alliances: alliances with foreign parties. Each party invests in a new business. Increasing trend. Allow for good control, each party retains say in decision-making.
- Foreign Direct Investment (FDI): acquiring foreign assets. Investment Canada focuses on attracting foreign investment in Canada. It replaced the Foreign Investment Review Agency (formally ensured that foreign investment benefited Canadians).
- Barriers to international trade include:
  - Socio-cultural differences: both large (age differences) and subtle (local do's and don'ts)
  - Economic differences: pronounced differences. Relationships of government to business, favouring of domestic business, command vs. market economies.
  - Legal and political differences:
    - Quotas, Tariffs, Subsidies:
      - A Quota restricts total number of products that can be imported. It indirectly raises prices by reducing supply.
      - Embargo forbids trade of certain products (Eg: to control diseases).
      - A tariff is a tax on imported products. Revenue tariffs are imposed strictly to raise money for the government while protectionist tariffs are imposed to discourage importation.
      - Subsidy: government payment to help domestic businesses compete with foreign firms.
      - Protectionism: protecting domestic business, thereby reducing free market competition. Pro: nation's become independent at producing their own goods, important for events such as wars. Cons: drives up prices for consumers.
    - Local-Content Laws: require products sold in a country to be at least partially made there. Profits are shared with those who live there. Act just like trade barriers. Interprovincial trade barriers have negative impacts.
      - Agreement on Internal Trade requires 10 provinces to remove agricultural trade barriers.
    - Business-Practice Laws: laws regulating business practice in countries. Legal in one country may be illegal in another.

- Cartels: association of producers that control supply and price (to artificial levels) of a commodity (OPEC drives up gas prices and controls supply).
- Dumping: selling a product for less abroad than in the producing nation. Illegal in Canada. Harms domestic industry.
- Free Trade Agreements:
  - European Union (formally the “Common Market”) eliminated most quotas and set uniform tariff levels among most of Western Europe. Largest free marketplace in the world.
  - North American Free Trade Agreement (NAFTA) among Canada, US, and Mexico. Benefits: more active NA market, increased direct foreign investment in Canada, US trade with Mexico increased, Canada became an exporting powerhouse, Canada has large trade surplus with US, Canada became most trade-intensive country in G8 Group (a forum of powerful countries).

## Ch. 6: Managing The Business Enterprise

- Organizational goal setting involves deciding what it intends to do, what actions will be taken, and formulating a strategy that underlies those decisions.
- Purpose of goal setting: provides direction, guidance, and motivation for managers; helps allocate resources (areas with growth potential are 1<sup>st</sup> priority); define corporate culture; and, assess performance (meeting or missing goals).
  - Long-term goals: 5+ years (top managers)
  - Intermediate goals: 1-5 years (middle management)
  - Short-term goals: <1 year (first-line managers)
- Mission statement: how organization will achieve its purpose in its environment. Includes core values and ethical behaviours.
- Strategy formulation: creation of an overall practice for defining and realizing goals.
  - Strategic goals: long-term goals derived from mission statement.
  - SWOT Analysis: assessing organizational Strengths and Weaknesses (internal) and environmental Opportunities and Threats (external).
  - Environmental analysis scans for environmental threats and opportunities such as new government regulations, hostile takeovers, and changing consumer tastes (threats).
  - Organizational analysis scans company for own strengths and weaknesses such as surplus cash and dedicated workers.
  - The heart of strategy formulation is matching the environment to the corporation. Strategies may be more risky or more conservative.
  - Plans have three levels:

- Strategic Plans: set up top management, decisions about resource allocation and priorities.
  - Tactical Plans: shorter-range, deal with implementing parts of the strategic plans, set by middle management.
  - Operational Plans: lower-level managers, short-term targets for performance.
- Three levels of Strategy (hierarchy):
  - Corporate-level strategy identifies the businesses that the company will partake in, and how they will relate. 5 sub-strategies:
    - Concentration strategy (focussing on one business and putting all eggs in one basket).
    - Growth (focussing on internal activities)
      - Market Penetration: boost sales with aggressive selling
      - Product Development (improve products for current markets)
      - Geographic expansion (new geographical areas included)
    - Integration (external activities resulting in growth)
      - Horizontal integration (buying out competitors) or Vertical integration (buying out inputs and outputs).
    - Diversification: expanding into new market segments. Related Diversification (adding new, related products) or Conglomerate Diversification (unrelated new products).
    - Investment Reduction: reducing in a line of business through Retrenchment (reduction of activity) or Divestment (liquidating or selling).
  - Business-level (competitive) strategy identifies ways a business will compete. 3 sub-strategies:
    - Cost Leadership (low cost leader);
    - Differentiation (unique in industry at some dimension valued to buyers. Eg: Volvo stresses safety); and,
    - Focus (serving a market niche).
  - Functional strategy (3<sup>rd</sup> in hierarchy) identifies the basic courses of action to attain goals.
- Management: process of maintaining organization's operation and controlling its resources for operation. 4 main functions:
  - Planning: determining what business needs to do and best way to achieve it.
    - Step 1: goals established; Step 2: Identify gaps between desire and current position; Step 3: plans developed; Step 4: plans implemented; and, Step 5: effectiveness of plan is assessed.
  - Organizing: mobilizing necessary resources to complete particular jobs.

- Leading: guiding and motivating employees to meet objectives.
- Controlling: monitoring performance and acting to bring it line with goals.
- Types of managers differ in the level or responsibility and their area of responsibility.
  - Top managers (least number): responsible for long-range plans and firm's overall performance.
  - Middle managers: increasingly less popular with a current cost-cutting trend. Implement decisions made by top management.
  - First-Line Managers: (most numerous) supervise work of employees.
- Areas of Management:
  - Marketing Managers: development, pricing, promotion, and distribution of product.
  - Financial Managers: oversee financial resources.
  - Operations managers: responsible for the systems that create goods or services.
  - Human Resource Managers: assist in hiring, training, evaluating, and determining the compensation level of employees.
  - Information Managers: implement systems to deal with information. Increasingly important.
  - Other Managers can also exist depending on what a firm does (research and development managers, public relations managers).
- Basic Management Skills:
  - Technical skills are associated with a specialized task in the firm. Less important up the corporate ladder.
  - Human relations skills: most important for middle managers (bridge between top management and lower management). Good communications skills.
  - Conceptual skills: abilities to think in the abstract, diagnose and analyze situations, and see beyond the present situation. Most important for top managers.
  - Decision-Making Skills: ability to define problems and decide on the best course of action. Steps of decision-making:
    - 1) Define the problem, gather facts, and identify alternative solutions.
    - 2) Evaluate each alternative and select the best one.
    - 3) Implement the alternative and evaluate its effectiveness.
  - Time Management skills: productive use of time. 4 leading causes of wasted time:
    - Paperwork (most important paperwork should require more attention);
    - Telephone (have secretary screen calls to avoid regular interruption);
    - Meetings; and, Email (many messages are trivial).

## Ch. 7: Organizing The Business Enterprise

- Organizational Structure: Specification of jobs and how they relate
  - Each component has distinct purpose, work in harmony
  - Must adopt most appropriate structure

- Chain of Command: reporting relationships and flow of decision-making power in a firm.
  - Organization chart: depiction of employee titles and relations to each other.
- Components of organizational structure: specialization (who will do what?) and departmentalization (how will tasks be best grouped together?)
  - Initially owner performs every job, with growth jobs are specialized.
  - Job specialization: process of identifying required jobs, dividing them into smaller components, and designating people to perform them.
    - Advantages: increased efficiency, steeper learning curve, and easy replacement of employees.
    - Disadvantages: boring jobs, less satisfaction, loss of overall company vision
  - Departmentalization: process of grouping jobs into logical units. Each unit may be its own profit center and performance can be compared. Grouped according to function, product, geographic location, or process lines.
- Decision-making Hierarchy: explicitly defined reporting relationships. 3 steps to establishing this:
  - Assigning tasks (who makes and how decisions are made)
    - Responsibility (duty to perform assigned tasks) and Authority (the power to make decisions) considered.
  - Performing tasks (implementing decisions)
    - Delegation (assigning tasks to a subordinate) and accountability falls to the subordinate.
    - Many managers have a fear of delegation.
  - Distributing authority (centralized or decentralized).
    - Centralized organization: most decisions must be approved by top managers, standardization maintained
      - Typically “Tall” organizational structure, prone to delays in flow.
      - Typically Narrow span of control (manager has few subordinates)
        - Good for diversified tasks.
    - Decentralized Organizations: in order to be more responsive to the environment, large companies are more decentralized.
      - Optimal level of decentralization (balance) should be achieved.
      - Typically drives prices up, recentralization may occur.
      - Typically “Flat” organizational structure.
      - Typically Wide span of control (manager has many subordinates)
        - Good for interrelated tasks which depend on each other.
  - Downsizing: planned reduction in scope of organization activity. Results in flatter structure and larger spans of control.
- Four basic organizational structures:
  - Functional Structure: oldest, most common. Departmentalization by function.

- Advantages: attention is focused, expertise develops, clearly defined career paths, simple, eliminate duplication of activities.
    - Disadvantages: conflicts may arise between areas, no single function for overall performance, narrow view within functional area, decision making is slowed, and coordination of specialized functions is difficult.
  - Divisional Structure: departmentalization based on products, customers, or geography.
    - Advantages: accommodates change, increases accountability, expertise develops
    - Disadvantages: activities may be duplicated, lack of communication, diverse divisions blur organizational focus, and company politics affect resource allocation.
  - Project Organization: lack or repetition and changing projects warrant the use teams of specialists working on specific projects.
    - Matrix organization: variation of Project Organization, regular line managers share authority with project manager until project is done.
    - After project is complete, team members move back to permanent jobs.
  - Modern organization designs:
    - Boundaryless organization: traditional political/national boundaries are less regarded. The opposite of international organization (coordinating operation in different countries).
    - Team organization relies exclusively on project-based teams with no underlying hierarchy. Teams are split upon growth. Greatly improves adaptability.
    - Virtual organization is based on maintaining a small staff and outsourcing activity. Composition of organization changes from project to project.
    - Learning organization is rooted in the assumption that constant employee leaning is the only way to improve the organization. Routine training programs.
- Informal Organization: transcending an organization's formal structure, there is informal structure. Sometimes just as powerful, or more, than formal structure. May reinforce office politics and put individual interests ahead of overall interests.
  - Informal groups: people who decide to socially interact together develop. May be positive (support each other and the organization), negative (run counter to organization's interests), or neutral.
  - Organization grapevine: the communication network of gossip through entire organization. ( Eg: the Internet is the worldwide grapevine). Information is distributed orally and often distorted (manipulated for personal gains). May act as an early warning system (Eg: a boss is annoying and about to be replaced).

## Ch. 8: Managing Human Resources

- Foundations of Human Resource Management
  - Human resource management: activities devoted to building and maintaining an effective workforce.
  - Becoming increasingly important
  - Poor planning results in inefficiency (Eg: hiring followed by layoffs), employees must be attracted, kept, and motivated.
  - Human Resource planning
    - Job Analysis:
      - Job description: list of duties and working conditions
      - Job specifications: list of credentials needed for the job
    - Forecasting demand and supply of labour
      - Forecasting internal supply: number and type of employees needed in the future
        - Replacement charts: lists important positions, who occupies it, expected time of occupation, and potential replacements.
        - Skills inventories: catalogue of employees listing skills, experience, education, etc. To quickly locate qualified employees.
      - Forecasting external supply: number available for hiring
    - Matching HR Supply and Demand: if shortfall is predicted, new employees can be hired or present ones retained. Temporary employees add to flexibility and allow organization to adapt.
- Staffing The Organization:
  - Recruiting to attract qualified applicants.
    - Internal recruiting: present employees are candidates, promotion.
    - External recruiting: attracting outsiders. Job fairs allow face-to-face interaction. Internships.
  - Selecting Human Resources
    - Validation: The predictive value of information gathered through candidate screening.
    - Application Forms: Job related demographic data, should not contain unrelated questions (sources for discrimination). Good for pre-interview familiarization.
    - Tests: knowledge relevant to the job, or general intelligence test. Tests should be validated frequently.
      - All scoring and administration must be consistent.
    - Interviews: sometimes poor predictor of jobs success due to biases.
      - Structured interviews for lower-level positions ensure consistency.

- Interviews for higher-level positions are tailored more to candidate's own experience.
    - "Curveball" questions asked to see how well candidates think on their feet.
  - Other techniques: polygraph tests and testing anything not directly related to job performance is now largely illegal. Physical examinations can be required for physical labour jobs.
- Developing Human Resources
  - Employee Orientation
    - Where firm culture is important, orientation may include company history.
  - Training and Development
    - Regular training may also persist.
    - Needs analysis: determining organization's needs and how to achieve them through training programs.
      - Work-Based Programs include:
        - On-the-job training: one employee guiding another through tasks
        - Systematic job rotations and transfers: rotating duties, used to screen candidates for promotions or familiarize new managers.
      - Instructional-Based Programs
        - Lecture or discussion approach, typically off-the-job training. May be on video, CD, or audiotape for uniform delivery.
      - Team Building and Group-Based Learning: increasingly popular.
        - Facilitate group co-operation. Useful only if participants look past the exercise and see its relevance to their job.
- Evaluating Employee Performance: performance appraisals evaluate the effectiveness of employees.
  - Used to benchmark employees and validate selection procedures.
  - Conduction of Performance Appraisal
    - Supervisors usually conduct appraisals because they have the most knowledge of the job and highest familiarity with the employee.
    - Supervisors are responsible and accountable for subordinates' performance.
    - Sources of Information:
      - Subordinates of a manager, self-evaluation, customers
      - Providing Feedback: after appraisal, coaching occurs. Appraisals tend to focus on negatives, so this is often difficult.
- Providing Compensations and Benefits
  - Compensation is set of rewards for labour. Carefully planned.
  - Determining Basic Compensation

- Basic Compensation: base level of wages or salary. Wage: hourly rate of pay. Salary: monthly or annual rate of pay, regardless of hours or output.
- Pay Surveys in Compensation:
  - Survey of compensation off similar jobs in same demographic. Organizations participate to access the results.
- Job Evaluation
  - Not to be confused with job analysis. Determines relative value of a job to the entire organization. Compensation made proportional to the value.
- Establishing a Pay Structure:
  - Value added for performance or seniority
  - Comparable worth concept: Equal wages paid to jobs of equal importance.
- Performance-Based Compensation:
  - Motivate employees to increase performance.
  - Merit Pay Plans:
    - Pay awarded for relative contribution value. Generally a raise.
    - Skill-and Knowledge-Based Pay Systems: acquisition of skills or knowledge makes employee more valuable, therefore pay is increased.
  - Incentive Compensation Systems:
    - Among oldest forms
    - Piece-rate incentive plan: ancient system, pay based on units produced. Don't account for minimum wages, assume that output is totally under individual's control, and employee must repeat same task.
    - Incentive Pay Plans: real-time issuance, such as sales commission, tips, for increased performance.
    - Non-monetary incentives such as points to redeem for products.
  - Team and group Incentive Systems: reward performance of the group and are growing in importance.
    - Gain Sharing: groups share some of the cost of the savings they generate for the company.
    - Performance Increases: real-time issuance for entire group's performance.
    - Profit Sharing: some of company's profits at the end of the year are shared with employees.

- Benefits:
    - Not expressed in financial terms
    - Canada's universal health care system saves our businesses money (they do not have to provide extra health benefits).
    - Mandated Protection Plans
      - Protection plans for illness, disability, death, unemployment or retirement. Some required by law.
      - Employment insurance: mandated basic subsistence in-between jobs.
      - Workers' Compensation: mandated insurance for job-related accidents. Premiums proportional to the danger of the labour.
    - Optional Protection Plans
      - Vision, dental, drug plans etc. The current trend is a short-fall in assets to sustain future pension promises.
    - Paid Time off
      - Paid vacations, sick leave, personal leave, paid or unpaid sabbaticals (help workers refresh).
    - Other types of benefits such as health clubs. Child-care and eldercare are increasingly popular.
    - Cafeteria-Style Benefit plans allow employees to choose their own benefits.
- Legal Issues in Human Resources
  - Anti-Discrimination Laws
    - Canadian Human Rights Act:
      - Anyone who wants to obtain a job has an equal opportunity to compete for it. Equal pay laws forbid discrimination in the form of compensation.
      - Some exceptions are permitted such as a blind person applying to be a crane operator.
      - Bona fide occupational requirement: overriding characteristics of a job are used to choose one applicant over another (female locker room managers).
      - Canadian Human Rights Commission: Respond to complaints and launch investigation on discrimination. Each province has a commission.
      - Employment Equity act:
        - Designates for groups as employment disadvantaged: women, visible minorities, aboriginal people, and people with disabilities.

- Sexual Harassment:
  - Quid pro quo harassment: offer something of value in exchange for sexual favour.
  - Hostile work environment is a subtler form. Making jokes, comments or posting inappropriate pictures.
  - Organization and manager are liable if employee is found guilty. They are responsible for controlling it.

## Ch. 9: Motivating and Leading Employees

- Psychological Contracts
  - Psychological Contracts: set of expectations (contributions expected) and (inducements expected in return to employees)
    - If managed effectively, workers will be satisfied and motivated
  - Human relations: interactions and attitudes between employers and employees
- Importance of Job Satisfaction and Morale
  - Job Satisfaction: degree of enjoyment derived from job
  - Morale: overall attitude employees have toward workplace. Reflects degree to which they perceive their needs are being met.
  - Importance of Satisfaction
    - More efficiency
    - Dissatisfied workers more likely to be absent, high turnover (percent of organization's workforce that leaves and must be replaced).
      - Some turnover is healthy, too much is waste of resources.
      - Turnover on the rise in Canada.
- Motivation in the Workplace
  - Motivation: set of forces that causes people to behave in certain ways
  - Classical Theory of Motivation (Fred Taylor)
    - People motivated almost solely by money.
    - Scientific Management: Time-and-Motion studies: each job re-designed to be most highly efficient, increased productivity allowed for higher wages.
  - The Hawthorne Study
    - Almost any action on the part of management that made workers believe they were receiving special attention increased productivity.
    - Hawthorne effect: workers productivity increases when they feel special attention from management.
  - Contemporary Motivation Theories
    - The Human-Resources Model
      - Theories X and Y:

- X: people must be forced to be productive, manage them that way
  - Y: people want to be productive, manage them that way (more effective)
- Maslow's Hierarchy of Needs Model
  - Hierarchy of 5 human needs. People move from the bottom to top (physiological) to the top (self-actualization), and won't seek the next until the previous has been satisfied.
  - Physiological needs: necessary for survival (water), make salaries sufficient so employees can afford these, comfortable working environment.
  - Security needs: stability and protection from unknown, offer pension and job security.
  - Social needs: friendship, friends at work, "belonging" in a company
  - Esteem needs: recognition and self-respect. Catchy job titles and large offices address this need.
  - Self-actualization needs: self-fulfillment. Give people jobs they can learn from and that are challenging.
- Two-Factor Theory (Herzberg)
  - Hygiene Factors
    - Working conditions
    - Lie on continuum from dissatisfaction to no dissatisfaction
  - Motivating Factors
    - Recognition for job well done
    - Lie on continuum from satisfaction to no satisfaction
- Strategies for Enhancing Job Satisfaction and Morale
  - Reinforcement/Behaviour Modification Theory
    - Shape behaviour by linking reinforcement with desirable behaviours and punishments with undesired behaviours.
  - Management by objectives
    - System of goal-setting that is applied throughout the entire organization.
    - Each employee feels important to be part of company-wide objectives
  - Participative Management
    - Employees given a voice in how their work is done.
    - Increases feeling of commitment because they help shape their job.
    - Becoming more popular in Canada.
    - Empowerment: energizing employees to create high quality customer service leading to repeat business (Eg: giving them the ability to offer free product credit to dissatisfied customers).
  - Team Management (one level higher than Participative Management)

- Employees given a voice in how work across the organization is done.
    - Consulting employees on a broad level such as production scheduling, work procedures, or hiring new employees.
  - The above two strategies are becoming increasingly popular to enhance employee motivation.
  - Always recognize that some employees are frustrated by extra responsibilities just as some are energized.
  - Job Enrichment and Job Redesign
    - Used to increase satisfaction in jobs which gravely lack motivating factors.
      - Job Enrichment Programs deal with adding motivating factors to job activities, such as increasing responsibility.
      - Job Redesign programs: Increase worker-job fit by redesigning job
        - Combining Tasks: enlarging jobs to increase their variety
        - Forming natural work groups: grouping people with different jobs to see the importance of each job in relation to the other.
        - Establishing client relationships: employees allowed to interact with customers to increase job variety.
  - Modified Work Schedules
    - Flextime: allows workers to pick their own working hours each day.
    - The Compressed Workweek: allows employees to work fewer days but more hours on each day.
    - Telecommuting: employees doing some or all of their work away from home. Controversial with managers who believe that no work is being done unless they supervise the work.
    - Workshare Programs: modified work schedule, a system of replacing a full-time job with several part-time jobs
    - Useful for:
      - Easing an employee into retirement;
      - Workers who want to work only part-time; and,
      - Co-op programs with academic institutions.
- Managerial Styles and Leadership
  - Leadership is the process of motivating others to work to meet specific objectives.
  - Andy Pearson: “Great leaders find a balance between getting results and how they get them. A lot of people make the mistake of thinking that getting results is all there is to a job... Your real job is to get results and do it in a way that makes your organization a great place to work.”
  - Managerial Styles
    - Patterns of behaviour that managers exhibit (not to be confused with specific traits of a leader, which is an outdated idea)

- Contingency Approach must be taken: each style is good for a situation, so reading a situation and applying the best style is important.
  - Autocratic style: issue orders and expect them to be obeyed without question. Good for rapid-decision making (military command).
  - Democratic style: request input from subordinates but manager retains final say in the decision.
  - Free-Rein Style: Manager serves as an advisor and subordinates make the decision (volunteer committee)
- Canadian Vs. American Styles:
  - Canadian managers are more subtle and more committed to their own companies. They won't "mindlessly follow the latest management fad" and are "more open to different cultures"... [[I thought this was hilarious]]
- Motivation and Leadership in the Twenty-First Century
  - Changing patterns of motivation: money is no longer prime motivator, businesses today cannot offer a good degree of job security, therefore fulfilling employee motivation requires new skilful attention from managers.
  - Changing patterns of leadership: Autocratic style is less acceptable, more leaders becoming democratic and acting as "coaches" and not "bosses". Leaders are now adopting a "network" mentality opposed to a "hierarchical" one.