

Bus106II

Business, Business Ethics



BUS106LL Business: an activity that seeks to provide goods and services to others while operating at a profit Profit: The amount of money a business earns in revenue beyond expenses Entrepreneur: a person who risks time and money to start and manage a business Canada moving towards a service built economy instead of manufacturing Stakeholders: Anyone with a vested interest in the company Those who lose or gain: Customers Employees Financial institutions (banks, credit unions) Investors (stockholders) Environmentalists Governments Suppliers Dealers (retailers) Offshoring: Sourcing part of the purchased inputs outside of the country Outsourcing: Assigning various functions, such as accounting, production, security, maintenance, and legal work to outside organizations Five factors of production: Land Labour Capital Entrepreneurship Knowledge Week 2: Basic_Ch02 Word of the week: Analyze (definition, what does it really mean, how to use it) Strategic Alliance: A relationship where both parties gain benefits from creating or fortifying a relationship Outsourcing can be beneficial to the company and country but quality control is an issue for fields such as pharmaceuticals. Macroeconomics: Country's economics Microeconomics: Looks at behaviour of people and organizations in a certain market Entrepreneurs: Make a lot of money fast (takes off) if it doesn't work they move on Stakeholders: All the people that stand to lose or gain from a companies policies or activities Offshoring: Sourcing part of the purchased inputs outside of the country (product) Outsourcing: contracting with other companies to do some or all of the functions of a firm such as production or accounting. (service) Factors of Production: Resources used to create wealth Land (or natural resources) Labour (workers) Capital Goods (Machines, tools,

buildings, other production materials. Not money) Entrepreneurship
Knowledge Business Environment: The surrounding factors that either help or hinder the development of business. The legal and regulatory environment Tax laws Contract laws Elimination of corruption The economic environment Income and expenditures Currency shifts Economic systems The technological environment Information and technology Databases The Internet The competitive environment -Components of competition Customer driven Organization structure The social environment - Diversity Demographic changes Family changes The global environment Encompasses all these characteristics Around the world Goods: Tangible products such as computers, food, clothing, cars, and appliances. Services: Intangible products (i. e products that can't be held in your hand) such as education, health care, insurance, recreation, and travel and tourism. Economics: The study of how society chooses to employ resources to produce goods and services and distribute them for consumption among various competing groups and individuals. Macroeconomics: The part of economic study that looks at the operation of a nation's economy as a whole Microeconomics: The part of economic, study that looks at the behaviour of people and organizations in particular markets. Invisible hand: A phrase coined by Adam Smith to describe the process that turn self-directed gain into social and economic benefits for all. Capitalism: An economic system in which all or most of the factors of production and distribution are privately owned and operated for profit Supply: The quantity of products that manufacturers or owners are willing to sell at different prices at a specific time. Demand: The quantity of products that people are willing to buy at different prices at a

specific time. Market price: The price determined by supply and demand

Perfect competition: The market situation in which there are many sellers in a large market and no seller is large enough to dictate the price of a product

Monopolistic competition: The market situation in which a large number of sellers produce products that are very similar but that are perceived by buyers as different. Oligopoly: A form of competition in which just a few sellers dominate the market. Monopoly: A market in which there is only one seller for a product or service

Free market: Allows open competition among companies. Business must provide good value or they will not make money

Socialism: An economic system based on the premise that some, if not most, basic businesses should be owned by the government so that profits can be evenly distributed among the people. (more even distribution of wealth but less chance to go above and beyond the average worker)

Communism: An economic and political system in which the state makes almost all economic decisions and owns almost all of the major factors of production.

Equilibrium point: Where supply and demand curves meet on the graph

Free-market economies exist when the market largely determines what goods and services are produced, who gets them, and how the economy will grow. Capitalism is the popular term used to describe this system

Command economies: Exist when the government largely decides what goods and services are produced, who gets them, and how the economy will grow. Socialism and communism are the popular terms to describe this variation.

Mixed economies: exist where some allocation of resources is made by the market and some is made by the government. Most countries don't have a name for this system. It is the most commonly used system around the world

now Canada's Mixed Economy: One of the largest countries (geographically) with one of the lowest population densities. One of the largest economies in the world resides just south of us, not only do they speak the same language as us but they are most powerful country in the world. USA is Canada's largest trading partner. Government still owns banks, insurance companies, radio stations and TV channels. Canada's government is largely involved in ventures that no other entrepreneur wants to take on or has the capital to do. These include things such as the CPR and Air Canada (Trans Canada Airlines) as well as mail In the 1990's Canada began privatization (taking control of businesses away from the government by selling them off) Key economic indicators: GDP - the total value of final goods and services produced in a country in a given year The unemployment rate - The percentage of the work force that is *actively* seeking work but cannot find any Frictional unemployment: Quit because they didn't like the job, also refers to people newly entering the labour force or returning from an extended period of absence. Structural unemployment: Refers to unemployment caused by the restructuring of firms (downsizing) or a mismatch of skill sets Cyclical unemployment: Due to recession (business cycle [up and down]) Seasonal unemployment: occurs when demand for labour varies over the year (farming, agriculture, etc) The price indexes Standard of living - The amount of goods and services one can buy with a given amount of money Quality of life - The general well-being of a society in terms of political freedom, a clean natural environment, education, health care, safety, free time and everything else that leads to satisfaction and joy Productivity is measure by: Total output of goods and services in a given

period Total hours worked An increase of productivity means more work can be done in less time. Higher productivity generally equals lower price

Inflation: rise in price of goods or services over time Disinflation: When price increases are slowing (inflation rate is declining) Deflation: When prices decline Stagflation: When the economy is declining but prices go up nonetheless

Consumer Price Index (CPI): Monthly statistic that measures the pace of inflation or deflation (done using a "basket" of 600 common household expenses) Business cycles (economic cycles): Periodic rises and falls that occur within an economy over time (measured using GDP)

Economic boom - Period of a lot of jobs, growth, and economic prosperity

Recession - Two or more consecutive quarters of decline in the GDP. In a recession prices fall, people buy less and businesses fail. A recession has many consequences: high unemployment, increased business failures, overall drop in living standards. Depression - Severe recession normally accompanied by deflation (very rare) Recovery - When the economy stabilizes and starts to grow eventually leading to a boom and starting the cycle once more

How Government Affects Business: Crown corporations - Owned and run by the federal or provincial government (Air Canada, Canadian National Railway, Bank of Canada) They provide special services private companies are not allowed to (Bank of Canada) and fund areas that require too much risk for people in the private sector to be interested in (Air Canada, CNR) Laws and Regulations Taxation and Financial Policies (Monetary and Fiscal) Government Expenditures Purchasing policies - Since they are the largest spender in Canada, where the government spends its money has a vast impact on the businesses. Services - A vast array of

activities including helping companies go international, bringing companies to Canada, training and retraining the workforce and providing a comprehensive statistics service through Statistics Canada National policy - High tariffs on US imports to protect Canadian manufacturing which had higher costs The power to make laws is based on the British North America Act, 1867 (BNA Act) Created Canadian Confederation and sets legal ground rules for Canada In 1982 it became part of the new Constitution and was renamed the Constitutional Act, 1867 Laws are derived from four sources: the Constitution, precedents established by judges, provincial and federal statutes, and federal and provincial administrative agencies. Federal Government Responsibilities: Trade regulations (interprovincial and international) Incorporation of federal companies Taxation (direct and indirect) Banking and Monetary System National defense Unemployment immigration criminal law fisheries Aeronautics Railways Telecommunications Atomic Energy Major Consumer Protection Laws: Canadian Agricultural Products Standards Act - covers farm products such as meat, fish, poultry, eggs, maple syrup, honey and dairy products Consumer Packaging and Labeling Act - applies to all products not specifically included in other acts Food and Drugs Act - covers a whole range of regulations pertaining to quality, testing approval, packaging and labeling Marketing boards - Organizations that control the supply or pricing of certain agricultural products in Canada Provincial Government Responsibilities: Regulation of provincial trade and commerce Natural resources within their boundaries Direct Taxation for prov. purposes Incorporation of prov. companies Licensing for revenue purposes The Administration of Justice Health and

social services Municipal affairs Property law Labour law Education The federal and provincial governments run their own student loan programs (RAP and OSAP) Municipal Government Responsibilities: Consumer protection Zoning laws Parking laws Speed limits Water Sewage Garbage disposal Road & Sidewalk construction Building codes Parks, playgrounds and libraries Taxes - How government redistributes wealth Fiscal policy - Increasing or decreasing taxes or government spending Deficit - Spent too much Surplus - Having excess after covering expenses National Debt - The accumulation of government surpluses and deficits over time Federal budget - A comprehensive report that reveals government financial policies for the coming year Financial aid: Loans Loan guarantees Grants Consulting advice Information Monetary policy - The management of money supply and interest rates Subprime mortgage crisis Low starting interest rates on bad credit (subprime) and rises as time passes causing people not to be able to afford their payments Due to a decline in the housing market people couldn't get enough from their houses to offset the balance of the loans either Transfer payments - Direct payments from governments to other governments or to individuals (elderly benefits and employment insurance as social security and income support) Equalization - Federal Gov't program that provides payments to provinces to fund public services such as health care and post-secondary education Foreign Affairs and International Trade Canada: Assists in exporting goods Assists in foreign investment activities Federal, Provincial and large Municipal gov'ts offer various ministries, depts and agencies such as: Information Marketing Financial aid Insurance & Guarantees Publications Contracts Industrial Policy - A comprehensive,

coordinated government plan to guide and revitalize the economy Ethics - Standards of moral behaviour Is it illegal? Is it balanced? How will it make me feel about myself? Compliance based ethics codes - Ethical standards that emphasize preventing unlawful behaviour by increasing control and penalizing wrongdoers Integrity based ethics codes - Ethical standards that define the organizations guiding values, create an environment that supports ethically sound behaviour, and stress a shared accountability among employees Six steps to improve business ethics: Corporate code of conduct (from Top Management) Employees must understand the importance of ethical behaviour Managers and others must be trained to make ethical decisions Ethics office should be set up for Whistleblowers* Outsiders must be aware of the ethics program which pressures employees to abide The ethics code must be enforced *Whistleblower - People who report illegal or unethical behaviour Sarbanes-Oxley Act of 2002 (SOX): The SOX established stronger standards to prevent misconduct and improve corporate governance practices. Applies to all publicly-traded companies under the U. S. S&E Commission Goal to ensure accuracy & reliability of published financial information Deals with admin routines, procedures and control activities Protects whistleblowers In response to SOX Canada launched a similar legislation. Corporate Social Responsibility - A business's concern for the welfare of society as a whole Corporate philanthropy - Dimension of social responsibility that includes charitable donations Corporate social initiatives - Using the company's services to benefit others in need Corporate responsibility - Everything from hiring minority workers to making safe products, minimizing pollution, using energy wisely, and providing a safe

work environment. Every responsibility to employees and society Corporate policy - Refers to the position a firm takes on social and political issues. Corporate responsibility to stakeholders: Strategic Approach - Requires managements primary orientation be toward the economic interests of shareholders. Rationale: as owners, shareholders have the right to expect management to work in their best interest - to maximize profit Pluralist Approach - Recognizes the special responsibility of management to optimize profits, but not at the expense of employees, suppliers, and members of the community. This approach recognizes moral responsibilities. Managers do not have moral immunity when making decisions. Responsibility to customers - Offer goods and service with a good value to customers Responsibility to Investors - Making money and doing it morally Responsibility to Society - Create safe products, cleaning up the environment, designing more honest advertising, treating women and minority fairly Responsibility to the Environment - Efforts to reduce footprint on the environment and make processes more efficient and " green" Social Auditing - Systematic evaluation of an organizations progress toward implementing programs that are socially responsible and responsive. It commonly refers to workplace issues, the environment, product safety, community relations, and respecting the rights of local people in order to grasp the progress of a company's social efforts Triple Bottom Line (TBL, 3BL or People, Planet, Profit) - Framework for measuring corporate performance against economic, social and environmental parameters Socially Responsible Business Activities: Community involvement (fundraising, donating employee time to NPOs, participating in urban planning and development) Employee-

related activities (flextime & other benefits, job enrichment, job safety, employee development programs) Political activities (taking position on legislature) on all levels Support for higher education, the arts and other NPSA's Consumer activities (truthful ads, safe products, rectifying claims, setting fair prices Types of Watchdogs: Socially concerned investors: Insist that a company extend its own high standards to all its suppliers Socially Responsible Investing (SRI) is highly subjective, values for each are different Ethics are different for each Environmentalists: Name companies who don't abide by environmental standards Union officials: Find violations Pursue companies to rectify them in order to avoid negative publicity Customers: Take their business elsewhere if a company is socially or ethically irresponsible Sustainable development - implementing a process that integrates environmental, economic, and social considerations into decision making. Chap 5 Sole Proprietorship: Pros Ease of starting and ending Being your own boss Pride of ownership Retention of company profit No special taxes Less regulations Cons Unlimited liability (all debts) Limited financial resources Management difficulties Overwhelming time commitment Few fringe benefits (you pay them for others) Limited lifespan (if owner is sick, dies, etc) Possibly pay higher taxes (grossing over \$400, 000 per year) Partnerships: Pros More financial resources Shared management Pooled/Complimentary knowledge and skills Longer survival Shared risk No special taxes (all taxed as income) Less regulation Cons Unlimited liability Division of profits Disagreements Difficult to terminate Possibly pay higher taxes (\$400, 000 up) General Partner - Assumes unlimited liability & is active in the company Limited Partner - Invests but only assumes limited liability;

not active in the company Corporations: Pros Limited liability More money for investment (stocks) Size (one area doesn't necessarily effect the other) Perpetual life (it's a separate legal entity) Ease of ownership change (sell your stock) Ease of drawing talented employees (through benefits, including stock options) Separation of ownership from management Cons Extensive paperwork (watched more carefully) Double taxation (corporation is taxed for income, then stockholders are taxed on payouts) Two tax returns (corporate and personal - may require an accountant) Size (inflexibility, takes time to respond to market changes) Conflicts with stockholders and board of directors Initial cost (thousands to incorporate, plus fees for lawyers and accountants Public Corporation - Has the right to issue shares to the public, shares may be listed on a stock exchange Private Corporation - Is not allowed to issue stock to the public, stock is not listed on any exchanges; limited to 50 shareholders Professional corporation - Smaller corps that are governed in their province for certain standards Non-Resident corporation - Conducts business in a country while their headquarters is elsewhere Non-Profit Corporations - Formed for charitable or socially beneficial purposes. Pays no income taxes and does not issue shares. Some properties may be tax exempt Corporate governance - The process and policies that determine how a business interacts with its stakeholders both internal and external Board of Directors - Management of a corp, separate from owners (stockholders), makes decisions based on interest of stakeholders Articles of incorporation - Legal authorization from the fed/prov govt to allow your company to run in a corp format Mergers Merger - The result of two firms forming one company Acquisition - When one company buys (acquires)

another Vertical merger - Joining of two companies in different stages of related business Example: Soda (beverage) and sweetener (artificial flavouring) Horizontal merger - Joining of two firms in the same industry Example: Soda (beverage) and a mineral water company (beverage) Conglomerate merger - Joining of firms in completely unrelated industries Example: Soft drink company (beverages) and snack food company (processed foods) Leveraged buyout - An attempt by employees, management, or a group of investors to purchase an organization primarily through borrowing Franchising: Pros Management and marketing assistance (proven concept + mentoring) Personal ownership (sole proprietorship with more help and rules) Nationally recognized name (buying the brand) Financial advice and assistance Lower failure rate Cons Large start-up cost (franchise license fee + investment fee) Shared profit (royalties) Management regulation (may not like the rules and policies) Coattail effects (different owners, looked at as one brand) Restrictions on selling (franchisors must approve the new owner) Fraudulent franchisors Franchise - The right to use a specific business's name and sell its goods or services in a given territory Franchisee - A person who buys a franchise Franchisor - The company that develops the products being franchised Franchise Agreement - An agreement allowing the use of the brand and goods/services in a given territory Home-Based Franchises - Head office with all the equipment, just work hard from home with the tools provided (usually on the phone or computer) E-commerce in Franchising - PropertyGuys. com example Success franchising in International markets depends on visibility, reliability, level of service and consistency Franchises differ from chain stores in that they are

all owned separately Co-Operatives: Co-Operative - An organization that is owned by members and customers, who pay an annual membership fee and share in any profits Different from other businesses in several ways:

Different purpose - The primary purpose is to meet the common needs of their members Different control structure - Votes per person not per share (helps avoid COInterest) Different allocation of profit - Shares profits on the

basis of how much they use the co op. Profits tend to be invested in improving services for members. Profits distributed by a reduction in

membership fees Chap 6 Entrepreneurship - Accepting the challenge of starting and running a business Difference from a small business owner:

Amount of Wealth Creation Investment instead employment (income stream)

Substantial wealth creation (millions) Speed of Wealth Creation Rapid

compared to small businesses (where the money is) Large amounts of

money in short spans (\$1, 000, 000 in 5 years) Risk High risk (not always

proven concepts) Innovation Substantial innovation (new ideas, rather than building on a foundation) Innovation gives the competitive advantage that

creates wealth New products, new production methods, new markets, and

new forms of organization Why people take the entrepreneurial challenge:

New idea, process, or product Make new products Make current products

better Make current processes more efficient Strong belief in being able to

make everything better Independence Entrepreneurs don't normally like to

work for people Freedom Entrepreneurs get satisfaction out of what they

achieve Challenge Entrepreneurs like to be challenged Excited by challenge

Thrive on overcoming challenges Family Pattern Many entrepreneurs grew

up in households with a family business May continue or extend the business

Interested in starting their own ventures Profit Monetary rewards for effort
Can make money doing things you like Immigrants Sometimes have a lack of
education or language skills and no canadian job experience If they can get
the capital they can start their own business Often have drive and desire to
succeed What does it take to be an entrepreneur? Self-directed Self starter
(initiative) Confident Self disciplined even though you are your own boss " A
lack of confidence is going to create a lack of performance" - Rebecca
MacDonald Determined Must be driven Have to believe in your idea Be able
to replenish your own enthusiasm Be able to keep going when others would
give up Action Oriented: Walk the talk Put ideas into actions Realize,
Actualize and Build Your Dream Highly Energetic Must be able to work
emotionally, physically and mentally long and hard Enthusiasm intrigues
others Tolerant of Uncertainty Successful entrepreneurs only take calculated
risks (if they can help it) Must be able to make risky decisions on a day-to-
day basis (minor and major) Not for the squeamish or those bent on security
Able to Learn Quickly Learn from your mistakes Adapt to change Own up to
their mistakes (put their pride aside) Women Entrepreneurs: Financial Need
Necessity Lack of Promotion Opportunities Most higher management
positions are still dominated by men Family and Personal Responsibility
Financial need for single mothers or low income families to take care of
children Improvements in technology have made it easy to start home-based
businesses Public Awareness of Women in Business Publicly highlighting
achievements of women entrepreneurs gives others confidence Often two or
more women will pair up Part-time occupations Many women put their
talents to good use in a part-time job Success in their part-time jobs can lead

to a promising career Higher rate of success for women Feel less pressure than men for quick results More cautious (make fewer mistakes) Accept advice more willingly than men Entrepreneurial Team - Group of experience people from different areas of business who join together to form a managerial team with the skills needed to develop, make, and market a new product Micro-Enterprise - A small business defined as having fewer than 5 employees Micropreneurs - Small business owners with fewer than five employees who are willing to accept the risk of starting and managing the type of business that remains small, lets them do the kind of work they to do, and offers them a balanced lifestyle Reasons for the growth of home based businesses Computer Technology Gives home-based companies as much reach as large corporations Technology has become cheaper Allows businesses to be created with a much smaller investment Corporate Downsizing No job security People lose their jobs and cannot find another one Change in Social Attitudes Has become more acceptable Was not referred to as a " real job" Challenges of running a home based business Getting New Customers No storefront or signs Done over word of mouth, telemarketing or gaining a presence on the Web Managing Time Must be able to use time wisely Time is saved by eliminating the commute You can work whenever you want to (job permitting) Keeping Work and Family Tasks Separate It is hard not to get sidetracked Doing the laundry, dishes, etc. should be for after hours only Getting away from your work when your office is at home can be difficult Abiding by City Ordinances Type of business allowed in the area How much traffic it is allowed to drive to the area Managing Risk Homeowners policies do not cover the business even if it is at

home Some policies void coverage if there is a business in the home May want to reconsider your insurance Intrapreneurs - Creative people who work as entrepreneurs within corporations (adding to the company) How government encourages entrepreneurship: Aboriginal Business Service Network (ABSN) Incubators - Centres that provide hands-on management assistance, education, information, technical and vital business support services, financial advice, as well as advice on where to go to seek financial assistance Starting a Small Business Business establishment - Has at least one paid employee, annual sales revenue of 30k or more, or is incorporated and has filed a federal corporate income tax return at least once in the past three years Employer business - Meets one of the business establishment criteria and usually maintains a payroll of at least one person, possibly the owner Small business - A business that is independently owned and operated, is not dominant in its field, and meets certain standards of size in terms of employees or annual revenues Importance of small businesses Most large businesses are foreign-owned, most small companies are Canadian Helps maintain economic independence On average, 130, 000 new small businesses are created in Canada each year Small businesses employ approximately 5 million individuals in Canada, or 48% of the private labour force Small businesses account for almost 98% of all employer businesses Businesses with > 50 employees contributed about 26% to Canada's GDP Approximately 15% of all employed workers in the economy were self employed 1/4 of small businesses list " lack of qualified workers" as one of their biggest obstacles to growth Owners of small businesses report that their advantages over large companies are more personal customer support

and their ability to respond quickly to opportunities Big businesses are the boulders to fill a big hole, small businesses is the sand to fill the gap (niche markets) Wide Diversification: Service Businesses Many labour based Travel Agencies, hotels and motels, amusement parks, income tax prep org, employment agencies Growth in computer consulting Growth in the knowledge-based industries Retail Businesses Businesses selling products from many suppliers in one location Food stands (bubble tea, flavoured popcorn, cafés) Construction Firms Supervises construction workers Bridges, roads, homes, schools, buildings and dams all apply Wholesalers Sell items in bulk at a discount Make more money Have more free time Travel more Find their work much more enjoyable than retail workers Manufacturing Make the most money among small business owners Cause of Small-Business Failure Plunging in without first testing the waters on a small scale Underpricing or over pricing goods or services Underestimating how much time it will take to build a market Starting with too little capital Starting with too much capital and being careless in it's use Going into business with little or no experience and without first learning something about the industry or market Borrowing money without planning just how and when to pay it back Attempting to do too much business with too little capital Not allowing for setbacks and unexpected expenses Buying too much on credit Extending credit too freely Expanding credit too rapidly Failing to keep complete, accurate records so that the owners drift into trouble without realizing it Carrying habits of personal extravagance into the business Not understanding business cycles Forgetting about taxes, insurance, and other cost of doing business Mistaking the freedom of being in business for oneself

for the liberty to work or not, according to whim Situations for small business success When the customer needs special attention (hair salon) The product is not easily made by mass producers (custom tailored clothes) Sales are not large enough to appeal to a large firm (novelty shop) Franchises The owner pays attention to competition Is in a growing industry Chapter 7: What are the reasons for changes in management? How are managers roles changing? What are the four primary function of management? Planning Anticipating trends Determining the best strats and tactics for organizational goals and objectives Other management functions depend heavily on a good plan Main aim is to please customers Organizing Designing the structure of an organization Creating conditions and systems in which everyone and everything work together to achieve the organizations goals and objective Allocating resources, assigning tasks Showing lines of authority Recruiting, selecting and training employees Placing employees where they'll be most effective Leading Creating a vision for the organizing Guiding Training Coaching Motivating others to work effectively There is a direct relationship between motivation and output Controlling Establishes clear standards to determine whether an organization is progressing Rewards people for doing a good job Taking corrective action if they are not Basically measuring whether or not what actually occurs meets the organizations goals What are the four types of planning? Strategic (long term) Outlines how the company will meet its objectives and goals Provides foundation for the policy, procedures, and strategies for obtaining and using resources to achieve those goals Tactical (short term) Process of developing detailed, short term statements about what is to be done Who is to do it How it is do be done

Planning for lower levels (actions plans) Operational Work standards and schedules Specific responsibilities Operational budgets Contingency Back up plan Made in case primary plans fail or do not work as expected Example: If a company doesn't meet it's quota for sales in a certain period, they may slash prices to drive sales or increase advertising initiatives What are the steps involved in decision making? Define the situation Describe and collect needed information Develop alternatives Develop agreement among those involved Decide which alternative is best Do what is indicated (begin implementation) Determine whether the decision was a good one and follow up

1 1 Chapter 8: Importance of Global Trade No country is self sufficient Other countries need products that prosperous countries produce Natural resources & Technological Skills are not distributed evenly around the world Importance of Importing & Exporting + terms Without importing items we would only have products made within our country Most countries do not have enough resources to sustain themselves or grow rapidly Importing lets us gain access to products and technology never seen before Exporting is one of Canada's main cash cows Exporting lets us bring more money into our economy from another economy Exporting lets us have a much larger market to target Exporting can mean goods or services; same with importing

Balance of Trade - Relationship of exports to imports Balance of Payments - Balance of trade + other money flows such as tourism and foreign aid

Comparative Advantage Theory - A country should produce those things it can do most efficiently but buy things that they cannot produce as efficiently

Absolute Advantage - A country that can produce something more efficiently and at a lower cost than another country. (Copper in Zambia) Different

strategies - Exporting Licensing (including franchising) Contract manufacturing Joint ventures Strategic alliances Direct Foreign Investment Role of multinational corporations on the economy - Creates jobs Stimulates the economy Not only do multinational corporations sell their products to a country but they also have manufacturing facilities or other physical presence in the country. Forces that affect trade Sociocultural forces (religion, social stigma, culture, etc) Economic (amount of disposable income, wealth of the country, willingness to spend \$) Legal & Regulatory (bribery is illegal in some places and the only way to do business in others) Technological forces (Internet availability) Dis/Adv of trade protectionism Advantages Promotes buying domestically Helps domestic companies grow Ensures money is being kept in our economy Disadvantages: Impedes trading in the global market Increases price to both suppliers and consumers Trade protectionism - Use of government regulations to limit the importation of goods and services Dumping - The act of selling a product for a lower cost in a foreign market than in the country it was produced Believers say it allows domestic producers to survive and grow, producing more jobs. Those against it argue it only impedes global trade, but that it also adds millions of dollars to the price of products, costing consumers billions of dollars Define tariff and non tariff barriers Protective Tariffs - Used to raise the price of foreign products Revenue Tariffs - Used to raise money for the government Non-Tariff Barriers - Barriers that include safety, health, and labeling standards Tariffs - A tax imposed on imports Organizations that try to eliminate trade barriers & facilitate trade among other countries WTO replaced GATT (General Agreements on Tariffs and Trade) to mediate

disputes IMF (International Monetary Fund) to offer short-term loans to countries World Bank (Robin Hood bank) Examples of common markets Canada and US Common Market - A regional group of countries that have a common external tariff, no internal tariff and a coordination of laws to facilitate exchange (US & Canada NAFTA) Changing landscape of the global market From US to China, India and Russia Outsourcing - Purchasing goods and services from another country instead of from inside the firm (call centers, IT dept, web hosting) Chapter 9 Define Operations Management and what types of firms use it Operation Management - A specialized area in management that converts or transforms resources (including human resources) into goods or services Firms in both manufacturing and services industries use it Describe the Planning Issues involved in the Service & Manufacturing Industries Picking a good geographical location is key to being successful due to specific needs of each business and general needs of all businesses. Energy, water, labour and capital must all be readily available and transportation must be cheap. Functions Facility Location Physical place of the facility Best geographical location (china for manufacturing due to labour wages) Main factors: Labour costs Land costs Amount of resources and cost Availability of skilled or adaptable workers Low taxes & local government support Energy and water are available Low cost of transportation High quality of life and education are high Facility Layout Physical arrangement of resources for optimum efficiency Placement of people Arrangement of machinery, tools, etc Quality Control Six Sigma quality control (3. 4 defects per million) detects problems before they occur Statistical Quality Control monitors production to ensure quality from the

beginning Statistical Process Control picks random samples from different stages and compares variances in quality What quality standards do firm use in Canada? ISO 9004: 2000 (ISO9000) - European standard for quality ISO14000 - Collection of the best practices for managing an organizations impact on the environment Discuss the problems in measuring productivity in the service sector & how technology is helping us Why is it hard to measure? Traditional method is productivity (worker hours) to outputs (dollars). Quality improvements are not weighed. A new system must be made to track the quality of goods and services, the speed of their delivery, and customer satisfaction How is technology creating productivity gains? Computers allow tasks to be done quicker and more accurately ATMs make banking faster and easier Automated check-outs reduce traffic to clerks and lets them process items more efficiently Explain how manufacturing processes can be used in the manufacturing sector What is process manufacturing, and how does it differ from assembly processes? Process manufacturing physically or chemically changes materials (sand into glass) Assembly processes puts components together (frame, engine, chassis of a car) Are there other production processes? Continuous - Long production runs turn out finished goods over time Intermittent - Short production runs, machines are changed frequently Describe seven manufacturing techniques that have improved the productivity of companies (make them more profitable) Materials Requirement Planning Just-in-Time Inventory Control When manufacturers have their parts and materials delivered just in time to on the assembly line Purchasing How have purchasing agreements changed? - Less suppliers with more quality goods One supplier gets all related

business and in turn offers services at a discount Many internet companies have started to make the exchange easier Manufacturers need to be more well rounded Flexible Manufacturing Designing machines that can make a variety of products Lean Manufacturing The production of goods using less of everything than mass production Less human effort, less space, less investment in tools, less time to develop a new product Mass Customization Making custom-designed products for a large number of individual customers Flexible Man makes this type possible Customized goods can be made as fast as mass produced goods used to be made Computer Aided Design and Manufacturing (CAD/CAM) CAD lets users design a product in 3D views down to the last detail CAM takes the tweaks from CAD and incorporates it into the manufacturing process What relationship does Enterprise Resource Planning have with the production process ERP is a software that allows multiple firms to manage all of their operations (finance, requirements planning, human resources, and order fulfillment) on the basis of a single, integrated set of corporate data. Shorter time between orders and payments Less staff needed Reduced inventories Better customer service Lessens the chance of human error Chapter 10 Describe the importance of the financial services industry to Canada Why is it important? Employs more than 1 million Canadians Represents 5% of Canada's GDP More than \$9 billion in tax revenues is generated Nearly \$50 billion of services are exported annually One of the most regulated sectors in the country due to the importance Regulation to ensure integrity, safety, and soundness of financial institutions Explain what money is and how it's value is determined Money is currency, or, anything that people will generally accept as payment for goods and

services How is the value of money determined? It is determined on the money supply (how much money there is to buy goods and services) Too much money in circulation causes inflation but too little causes deflation, recession and unemployment Discuss the roles banks have in providing services Who benefits from their services? Almost everyone What are the key criteria when selecting investment options? Investment Risk The chance your investment may be worth less in the future than it is now Yield Expected rate of return on an investment over a period of time Duration The length of time your money is committed to the investment Liquidity How quickly you can get your money out if you need it Tax consequences How the investment will affect your tax situation Chapter 11 Describe the importance of finance and financial management to an organization, and explain the responsibilities of financial managers Finance - Comprises those functions in a business responsible for acquiring funds for the firm, managing funds with the firm and planning for the expenditure of various funds on various assets What are the most common ways in which firms fail financially? Undercapitalization Poor control over cash flow Inadequate expense control What do financial managers do? Plan Budget Control funds Obtain funds Collect funds Audit Manage taxes Advise top management on financial matters Outline the financial planning process and explain the three key budgets in the financial plan What are the three budgets of finance? Operating (master) Budget - summarizes the two other budgets Projects dollar allocations to various costs and expenses given various revenues Capital Budget Spending plan for expensive assets Properties Plants Equipment Cash Budget Projected cash inflows and outflows for a period

Projected balance at the end of a given period Explain the major reasons why firms need operating funds, and identify various types of financing that can be used to obtain these funds What are the major financial needs for firms? Managing day-to-day needs of the business Controlling credit operations Acquiring needed inventory Making capital expenditures What's the difference between short and long term financing? Short term - Repaid in less than one year Long term - Repaid in a specific period of over one year (mortgage) What's the difference between debt financing and mortgage financing? Debt financing - Going into debt Equity financing - Obtaining funds from within the firm (selling stocks, retained earnings, etc) Identify and describe different sources of short-term financing Sources Trade credit Promissory notes Family and friends commercial banks Factoring Commercial paper Why should businesses use trade credit? It is the least expensive and most convenient form (buy goods today, pay later) What's a line of credit? An agreement made by the bank to lend up to a specific amount to a business at any time as long as certain conditions are met. A revolving credit agreement means a loan will always be available - for a fee What's the difference between a secured loan and an unsecured loan? Secured - Has collateral Unsecured - No collateral Is factoring a form of secured loan? No, it means selling accounts receivables (payments to be made to your company) at a discounted rate to a factor (intermediary who will pay cash for those accounts) What's commercial paper? A corporation's unsecured promissory note (written agreement to pay) of \$100,000 and up maturing in 365 days Appendix B Speculative risk - a risk that involves the chance of profit or loss Pure risk - the threat of loss with no chance for profit

(fire, accident, loss), if they occur the company loses profit but if they don't the company gains nothing

Uninsurable risk - Risks that no insurance company will cover such as market changes (a new style makes your product obsolete, price changes induce losses), political risk (losses from war or government restriction on trade), some personal risk (losing your job), and some risks of operation (strikes)

Insurable risk - The type most insurance companies will cover.

Insurable interest - The policy holder is the one at risk of loss

Guidelines Must have insurable interest The loss should be measurable The chance of loss should be measurable The loss should be accidental The risk should be dispersed The insurance company can set standards for accepting the risk

Insurance policy- A written contract between the insured and an insurance company that promises to pay for all or part of a loss

Premium - The fee charged by an insurance company for an insurance policy

Law of large numbers - Principle that if a large number of people are exposed to the same risk, a predictable number of losses will occur during a given period of time

Rule of Indemnity - Rule of saying that an insured person or organization cannot collect more than the actual loss from an insurable risk

Stock Insurance Company - A type of insurance company owned by stockholders (for a profit)

Mutual insurance company - Owned by its policyholders and any excess funds go to reducing premiums or dividends for its policyholders

Health, Disability, Workplace Safety and Liability insurance are all available