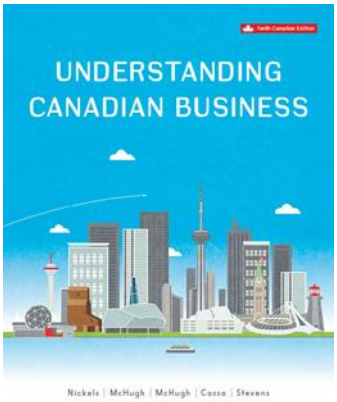
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CHAPTER 1
The Dynamic Business Environment

BRIEF CHAPTER OUTLINE AND LEARNING GOALS

Opening Profile: Getting to Know: Ron Foxcroft

I. USING THIS COURSE TO PREPARE FOR YOUR CAREER

II. BUSINESS FUNDAMENTALS

- ***Learning Objective 1***
  Illustrate the importance of key business fundamentals to wealth generation.

A. Revenues, Profits, and Losses
B. Matching Risk with Profit
C. Standard of Living and Quality of Life

- ***Learning Objective 2***
  Identify business stakeholders and their importance to non-profit organizations to business activities.

A. Responding to Various Business Stakeholders
B. Using Business Principles in Non-Profit Organizations

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➢ ***Learning Objective 3***
Explain how entrepreneurship is critical to the wealth of an economy, and list the five factors of production that contribute to wealth.

III. ENTREPRENEURSHIP VERSUS WORKING FOR OTHERS

A. The Importance of Entrepreneurs to the Creation of Wealth

➢ ***Learning Objective 4***
State the six elements that make up the business environment and explain why the business environment is important to organizations.

IV. THE BUSINESS ENVIRONMENT

A. The Legal Environment
   1. Laws Affect Business

B. The Economic Environment

C. The Technological Environment
   1. How Technology Benefits Workers and You
   2. The Growth of Electronic Commerce (E-Commerce)
   3. Using Technology to Be Responsive to Customers
   4. Social Media Marketing

D. The Competitive Environment
   1. Components of Competition
   2. Competing by Exceeding Customer Expectations
   3. Competing by Restructuring and Empowerment

E. The Social Environment
   1. The Aging Population
   2. Workforce Trends
   3. Managing Diversity

F. The Global Environment
   1. How Global Changes Affect You
   2. The Ecological Environment

➢ ***Learning Objective 5***
Give examples of how the service sector has replaced manufacturing as the principal provider of jobs, but why manufacturing remains vital for Canada.

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V. THE EVOLUTION OF CANADIAN BUSINESS

A. Progress in the Agricultural and Manufacturing Industries
   1. Canada's Manufacturing Industry
B. Progress in Service Industries
C. Your Future in Business

Key Terms		
baby boomers	Generation X	profit
business	Generation Y	quality of life
business environment	Generation Z	regulations
climate change	goods	revenue
crowdsourcing	greening	risk
database	identity theft	services
demography	insourcing	stakeholders
e-business	loss	standard of living
e-commerce	non-profit organization	sustainability
empowerment	offshoring	technology
entrepreneur	outsourcing	
factors of production	productivity	

Resource Checklist

FIGURES FROM TEXT

Fig. 1.1 Earnings Comparison of Postsecondary and High School Graduates over 20 Years
Fig. 1.2 New Careers
Fig. 1.3 A Business and Its Stakeholders
Fig. 1.4 The Five Factors of Production
Fig. 1.5 Today's Dynamic Business Environment
Fig. 1.6 How Competition Has Changed Business
Fig. 1.7 Population Distribution by Age Group
Fig. 1.8 The Importance of the Services-Producing and Goods-Producing Sectors in Canada
Fig. 1.9 What Is the Service Sector?

EXERCISES AND BOXED FEATURES FROM TEXT

Spotlight on Small Business

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- Fighting for Air Space: Chinook Helicopters Ltd.

Making Ethical Decisions
- How Ethical Are You?

Reaching Beyond Our Borders
- Hollywood Climbs the Great Wall

Adapting To Change
- Up, Up, and Away

Seeking Sustainability
- Services Expand the Circular Economy and Reduce Waste

End of Chapter Content
- Career Exploration
- Critical Thinking
- Developing Career Skills
- Analyzing Management Decisions: Canada's Fastest-Growing Companies

SUPPLEMENTARY EXERCISES IN THIS MANUAL

LECTURE LINKS
Lecture Link 1-1 - Social Entrepreneurship: Village Phones and Yogurt
Lecture Link 1-2 - Improving World Health Without Profits
Lecture Link 1-3 - Education's New Whiteboard

Critical Thinking Exercise 1-1: Making Ethical Decisions
Critical Thinking Exercise 1-2: Job and Career Versus Owning A Business

Supplemental Case 1-1: The World's Largest Charity

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Lecture Outline	
Outline	**Supplements**
The **PROFILE** at the beginning of the chapter focuses on Canadian entrepreneur and inventor Ron Foxcroft, who is the founder and CEO of Fox 40 International Inc. While Foxcroft owns other businesses, he is best known for his invention of the pealess whistle which he first brought to market in 1987. Today, the Fox 40 whistle dominates the global whistle industry with tens of thousands of whistles are produced monthly for shipment to 140 countries. Foxcroft believes in a customer focused strategy supported by an entrepreneurial vision, market focus, adaptability and persistence.	
I. USING THIS COURSE TO PREPARE FOR YOUR CAREER The value of a higher education can be quantified. Post-Secondary graduates make 60% more than do high-school graduates**.** Post-secondary graduates will likely hold seven or eight different jobs over their lifetime. The job market is fast-changing: many jobs didn't exist as recently as ten years ago. **II. BUSINESS FUNDAMENTALS** A **business** is any activity that seeks to provide goods and services to others while operating at a profit. **Profit** is the amount a business earns above and beyond what it spends for salaries and other expenses. An **entrepreneur** is a person who risks time and money to start and manage a business. ➢ ***Learning Objective 1*** *Illustrate the importance of key business fundamentals to wealth generation.* **A. Matching Risk with Profit**	Fig. 1.1 Fig 1.2

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Profit is revenue minus expenses. **Revenue** is the total amount of money a business takes in during a given period by selling goods and services. A **loss** occurs when a business's expenses are more than its revenues. **Risk** is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable. Rewards and risk are RELATED. The more risks you take, the higher the rewards may be. As a potential business owner, you should do research to find the right balance between risk and profit. **B. STANDARD OF LIVING AND QUALITY OF LIFE** **Standard of living** is the amount of good and services that people can buy with the money they have. Canada has a high standard of living partly because of the wealth created by its businesses. **Quality of life** is the general well-being of a society. ➢ ***Learning Objective 2*** *Identify business stakeholders and their importance to non-profit organizations to business activities.* **B. Responding to Various Business Stakeholders** **Stakeholders** are all the people who stand to gain or lose by the policies and activities of a business. Stakeholders include customers, employees, financial institutions, stockholders, suppliers, bankers, and people in the local community, environmentalists, and elected leaders. The challenge for companies in the 21st century will be to BALANCE as much as possible, the needs of ALL stakeholders. Pleasing all stakeholders is not easy and requires balancing many factors.	Critical Thinking 1-1 Lecture Links 1-1 and 1-2 Fig 1.3

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Offshoring entails sourcing part of the purchased inputs outside of the country. **Outsourcing** is assigning various functions, such as accounting, production, security, maintenance, and legal work, to outside organizations. Outsourcing decisions affect the boundaries of the firm, what production takes place within the firm and what is purchased from outside the firm. Changes in offshoring may be, but are not necessarily, related to changes in outsourcing. They involved decisions both to purchase outside of the firm and to do so from abroad. Companies have gone from outsourcing production jobs to offshoring research and development and design functions.	Supplemental Case 1-1 Critical Thinking 1-2
C. Using Business Principles in Non-Profit Organizations Non-profit organizations such as schools, hospitals, charities like the United Way and the Salvation Army, and groups devoted to social causes—also make a major contribution to the welfare of society, as well as economic activity and jobs. A **non-profit organization** is an organization whose goals do not include making a personal profit for its owners or organizers. SOCIAL ENTREPRENEURS are people who use business principles to start and manage non-profit organizations and help countries with their social issues. You need the SAME SKILLS to work in non-profit organizations that you need in business, including information management, leadership, marketing, and financial management. ➢ ***Learning Objective 3*** *Explain how entrepreneurship is critical to the wealth of an economy, and list the five factors of production that contribute to wealth.* **III. ENTREPRENEURSHIP VERSUS WORKING FOR OTHERS**	

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There are two ways to succeed in business. One is to RISE THROUGH THE RANKS of a large company such as Royal Bank of Canada or Manulife Financial. The more risky path is to START YOUR OWN BUSINESS.

Fig 1.4

A. The Importance of Entrepreneurship to the Creation of Wealth

The **factors of production** are the resources used to create wealth: land, labour, capital goods, entrepreneurship, and knowledge.

Some experts believe that the most important factor of production is KNOWLEDGE. It is important to get as much education as possible to prepare for knowledge-oriented jobs.

Information is not the same as knowledge.

What makes rich countries richer is not land, labour, or capital; it is a combination of entrepreneurship, and the effective use of knowledge.

- ***Learning Objective 4***
  Review the six elements that make up the business environment and explain why the business environment is important to organizations.

IV. THE BUSINESS ENVIRONMENT

Fig 1.5

The **business environment** means the surrounding factors that either help or hinder the development of businesses. They are:

1. the legal and regulatory environment;
2. the economic environment;
3. the technological environment;
4. the competitive environment;
5. the social environment; and
6. the global environment.

Businesses grow and prosper in a healthy environment. Creating the right business environment is the foundation for social progress of all kinds including goods schools, clean air and water, good health care, and low rates of crime.

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A. The Legal Environment People are willing to take the risk of starting businesses if they feel that the risk of losing their money is not too great. Governments can do a lot to lessen the risk of starting and running a business through the laws that are passed by its elected officials. An important piece of legislation is the Competition Act. Other examples of laws are the Canada Small Business Financing Act, the Consumer Packaging and Labelling Act, and the Trade Unions Act. **Regulations** serve to carry out the purposes of or expand on the general laws passed by elected officials. **1. Laws Affect Business** Businesses need to be aware of the laws that will affect their business. Governments can LESSEN THE RISK of starting a business by passing laws that reduce taxes and enable business people to write contracts that are enforceable in court, and minimizing corruption in business and government. **B. The Economic Environment** The economic environment looks at income, expenditures, and resources that affect the cost of running a business. Businesses review ECONOMIC INDICATORS such as consumer spending, employment levels and productivity to give them a sense of what is happening in the marketplace and what actions they may need to take. A country's currency relative to other currencies also pertains to this environment. Currency movements are especially critical for countries that generate a great deal of business activity from exports. Government can therefore establish a currency that is tradable in world markets. Governments can promote the economic environment by allowing private ownership of businesses and by having a currency that is tradable in world markets.	Making Ethical Decisions

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C. The Technological Environment	
Technology refers to inventions or innovations from applied science or engineering research.	Adapting to Change
It can include everything from phones and copiers to computers, medical imaging devices, personal digital assistants, and various software programs that make business processes more efficient and productive. New technologies are dramatically changing business practices and the way businesses and customers buy and sell.	Lecture Link 1-3
Few technical changes have had a more lasting impact on businesses than INFORMATION TECHNOLOGY.	
1. How Technology Benefits Workers and You	
Productivity is the amount of output you generate given the amount of input (e.g., hours worked).	
EFFECTIVENESS means producing the desired result. EFFICIENT means producing goods and services using the least amount of resources.	
2. The Growth of Electronic Commerce (E-Commerce)	
The buying and selling of goods and services over the Internet is known as **e-commerce**.	
There are two types of e-commerce transactions: BUSINESS-TO-CONSUMER (B2C) and BUSINESS-TO-BUSINESS (B2B).	
E-business is any information system or application that empowers business processes.	
E-commerce only covers one aspect of e-business (i.e., the use of an electronic support for the commercial relationship between a company and individuals).	
3. Using Technology to Be Responsive to Customers	
The businesses that are most responsive to customer wants and	

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needs will succeed. One way businesses can respond is to use technology to become more responsive. A **database** is an electronic storage file where information is kept. Databases let businesses tailor products and marketing to customers. Databases also allow stores to carry fewer items and fewer inventories. The gathering of personal information has led to **identity theft**, which is the obtaining of personal information about a person and using that information for illegal purposes. Federal Privacy laws have been created. For example, the Personal Information Protection and Electronic Documents Act (PIPEDA) sets out ground rules for how private sector organizations may collect, use, or disclose personal information in the course of commercial activities. **4. Social Media Marketing** To survive in the new social media world including social networks (Facebook, Twitter) and shared media sites (blogs, YouTube), companies must understand and adapt to this new landscape. **Crowdsourcing** uses a large group of people to solve a business problem. **D. The Competitive Environment** Making quality products is not enough to stay competitive in world markets – now you have to offer QUALITY PRODUCTS and OUTSTANDING SERVICE at competitive prices. **1. Components of Competition** Companies must consider the factors that drive competition: Entry: One considers the likelihood of new entrants. Additional producers increase industry capacity and tend to lower prices. Barriers to entry are business practices of conditions that make it difficult for new firms to enter the market. They can be in the form	Fig. 1.6

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of capital requirements, product identity, distribution access or switching costs. Power of Buyers and Suppliers: Powerful BUYERS exists when they are few in number, there are low switching costs, or the product represents a significant share of the buyer's total costs. A SUPPLIER gains power when the product is critical to the buyer and when it has built up switching costs. Existing Competitors and Substitutes: This depends on the rate of industry growth. In SLOW-GROWTH settings, competition is more heated for any possible gains in market share. HIGH FIXED COSTS also create competitive pressures for firms. **2. Competing by Exceeding Customer Expectations** Customers want good quality at low prices and great service. Business is becoming CUSTOMER-DRIVEN. Customers' wants and needs come first. Successful companies must LISTEN TO CUSTOMERS to determine their wants and needs and to adjust their products, policies, and practices to meet these demands. **3. Competing by Restructuring and Empowerment** To meet the needs of customers, firms must enable their front-line workers to respond quickly to customer requests. **Empowerment** is giving frontline workers the responsibility, authority, and freedom to respond quickly to customer requests. To implement empowerment, businesses must train front-line people to make decisions. It sometimes takes years to restructure an organization so that managers are willing to give up some of their authority and employees are willing to assume more responsibility. **E. The Social Environment** **Demography** is the statistical study of the human population in regard to its size, density, and other characteristics, such as age, race, gender, and income.	Spotlight on Small Business Fig. 1.7

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The Canadian population is going through major changes that are dramatically affecting how people live, where they live, what they buy, and how they spend their time. Tremendous population shifts are leading to new opportunities for some firms and to declining opportunities for others. **1. The Aging Population** More people are living longer due to better medical knowledge and technology and better health habits. The portion of the population that is very young continues to DECREASE because of declining birth rates since the 1960s. **Baby boomers** (those born in the period from 1947 to 1966) have had children known as **generation Y**, or Millennials. .The latest group is known as **generation Z** (born between 1995 and 2009). It is expected that seniors will become more numerous than children sometime around 2021. **2. Workforce Trends** The growing senior's population will need goods and services. Also think of the goods and services needed by middle-aged people. **3. Managing Diversity** Canada has a strong multicultural population. Businesses have responded to this DIVERSITY by hiring a more diverse workforce. **F. The Global Environment** The global environment of business affects all other environmental influences. Two important global environmental changes today are the	Reaching Beyond Our Borders

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GROWTH OF GLOBAL COMPETITION and the increase in free trade among nations. Two things that have led to more trade are the improvements in transportation and communication. **1. How Global Changes Affect You** Better technology, machinery, tools, education and training enable each worker to be more productive. Rapid change creates a need for continuous learning. **3. The Ecological Environment** There are an increasing number of terms that recognize today's preoccupation with how individual and business actions impact us nationally and internationally **Climate change** is the movement of temperature up and down over time. **Greening** is the trend towards saving energy and causing less harm to the environment. **Sustainability** reflects the needs of current and future generations. **V. THE EVOLUTION OF CANADIAN BUSINESS** Businesses have become so productive that fewer workers are needed in the industrial sector to produce **goods**, which are tangible products, such as computers, food, clothing, cars, and appliances. ➢ ***Learning Objective 5*** *Give examples of how the service sector has replaced manufacturing as the principal provider of jobs, but why manufacturing remains vital for Canada.* . **A. Progress in the Agricultural and Manufacturing Industries** The use of TECHNOLOGY allowed the agricultural industry to become so PRODUCTIVE that the number of farmers has dropped. Many small farms have been replaced by fewer and	Seeking Sustainability

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larger farms or highly specialized farms. Many farmers who lost their jobs went to work in factories. TECHNOLOGY made manufacturing more productive and workers again lost their jobs. Many workers in the industrial sector found jobs in the service sector. **1. Canada's Manufacturing Industry** The goods-producing sector includes the manufacturing, construction, agriculture, forestry, fishing, and mining industries. Manufacturing employs a little over 10 percent of Canada's working population. While manufacturing is smaller today than it was 25 years ago, it is still an integral part of our economy. **B. Progress in Service Industries** Many workers who lost their manufacturing jobs found jobs in service industries. **Services** are intangible products (i.e., products that can't be held in your hand, such as education, health care, insurance, recreation, and travel and tourism. Over the last 25 years, the service sector has grown so dramatically that today it employs almost 79 percent of Canada's working population. There are several reasons why there has been growth in this sector. One is: technological improvements. As well since staffing has been downsized by many companies, business has become more complex and specialized companies have relied more heavily on outside service firms. As large manufacturing companies seek to become more efficient, they contract out an increasing number of services, creating more opportunities for business people. There are more high-paying jobs in the service sector than in the goods-producing sector. Other service firms have risen or expanded rapidly to provide traditional services that used to be performed by women at home.	Fig. 1.8 Fig. 1.9

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C. Your Future in Business The information-based global revolution will alter the way business is done in the future. Most of the CONCEPTS AND PRINCIPLES that make business more effective and efficient are also applicable in government agencies and non-profit organizations.	

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END OF CHAPTER MATERIAL

CAREER EXPLORATION

The focus of Career Exploration in Chapter 1 is careers in service jobs. Given that most students will work in the service industry when they graduate the Chapter introduces students to some common service careers and asks them to use various online job sites to determine tasks performed, skills needed, pay, and opportunity outlook for specific jobs including: Lodging Manager; Meeting and Event Planner; Interior Designer; and Network and Computer Systems Administrator.

Instructors may want to assign this either individually or in groups and have students report back to class. Instructors may want to augment the assignment by asking students to also explore two to three other services jobs which are not included in the list above.

While student answers will vary the instructor may want to point out differences in student findings. Likely differences will include educational requirements, long term job prospects, and salaries.

CRITICAL THINKING

Students are being told to imagine they are thinking about starting a restaurant and to address the following questions:

1. *Who will be the various stakeholders of your business?*

   Student answers may vary but likely include:

   Customers: The people who purchase products.

   Employees: The people who are hired to help run/operate the restaurant.

   Suppliers: The businesses/farms who supply the food needed for the restaurant. Other suppliers could include suppliers of cutlery, restaurant equipment and so forth.

   Government: The business would have to abide by government regulations, be inspected and collect and pay tax.

   Investors: People or firms who lend the students money to start the business.

   Financial Institutions: Will at the minimum assist the student entrepreneur in protecting their money. They may also be a source if investment.

   Students may also discuss the environment, media and the community.

2. *How will you establish good relationships with your suppliers? With your employees?*

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Student answers may vary but likely include:

Suppliers: Establish a relationship by speaking to them; paying on time; ordering in advance.

Employees: Establish a relationship by speaking to them; paying them on time; paying an above average wage; communicating with them about shift time/scheduling; establish a profit-sharing plan and so forth.

3. You need to consider whether you will purchase locally grown produce versus foreign-grown produce. What are the advantages and disadvantages of using either, especially if the foreign-grown produce is cheaper or of better quality?

Student answers may vary but likely include:

Local: Advantages: May be higher quality; may costs less; support local jobs and farms; leave less environmental impact; could market the concept of using locally grown suppliers. Disadvantage: may cost more; may not be of the highest quality; may not always be accessible.

Foreign: Advantages: May cost less and be of higher quality; may support farmers who need support; may be readily available 12 months a year. Disadvantages: Environmental footprint; costs; quality; people may not support your firm based on foreign suppliers.

4. What are some of the things you could do to benefit your community other than provide jobs and generate tax revenue?

Student answers may vary but likely include:

1. Use local suppliers
2. Donate money/goods to local causes
3. Provide meeting space to community groups
4. Advertise locally
5. Employ interns or co-op students
6. Promote entrepreneurship

5. You are considering paying your employees the minimum wage. Do you think that you would attract better employees if you offered higher wages?

Student answers may vary. Most students will conclude that you are likely to attract better employees through higher pay.

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6. How might you be affected by the six environmental factors outlined in this chapter? Which factor(s) might have the biggest impact on your business?

Student answers may vary but likely focus on the economic and competitive environment. Students should recognize that eating at a restaurant is not a necessity and if the economy is doing well, people have more money and will tend to spend it on things such as eating at restaurants. Students should also recognize that the competitive environment specifically rivals and new entrants will have significant impact on the success of their business.

DEVELOPING CAREER SKILLS

1. Make a list of non-profit organizations in your community that might offer you a chance to learn some of the skills you will need in the job you hope to have when you graduate. How could you make time in your schedule to volunteer or work at one or more of those organizations? Write a letter to a non-profit organization to inquire about such opportunities. Hint: You can identify organizations and events in your city by going to 411 Local Search and inputting "non-profit organizations and events your city name" in the cell under Business, near the top. A less-targeted source is the Charity Village website. Charity Village supports Canada's charities and non-profit organizations as well as the stakeholders who support them.

Student answers will vary.

2. Form into teams of four or five and discuss creating an entirely new product or service. What value does this new product or service create? Who are the stakeholders for this new product or service? Could an entrepreneur readily produce it or would its chance of success be higher if it was produced by a large company? Explain.

Student answers will vary.

3. Imagine that you are a local business person who has to deal with the various issues involved with outsourcing. You want to begin with the facts. How many jobs have been lost to outsourcing in your area, if any? Are there any foreign firms in your area that are creating jobs (insourcing)? You will need to use the Internet to find the data you need.

Student answers will vary.

4. Form into teams of four or five and discuss the technological and e-commerce revolutions. How many students now shop for goods and services online? What have been their experiences? What other high-tech equipment do they use to make purchases

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(smartphones, tablets, laptops, etc.)? What products do they plan on buying in the next year?

Student answers will vary.

5. Use Yelp to find five businesses that provide services in your area. List those businesses and, for each, describe how social trends might affect them in both positive and negative ways. Be prepared to explain your descriptions to your team or the whole class, as your instructor directs.

Student answers will vary.

TEXTBOOK CASE
ANALYZING MANAGEMENT DECISIONS

CANADA'S FASTEST-GROWING COMPANIES

1. *Which of these data support the information discussed in the chapter? Explain your answer.*

   The textbook introduces students to the importance of manufacturing and technology-based companies to the economy. These areas, especially service providers, are represented in the sector breakdown of some of the top 100 fastest-growing companies.

2. *Why do certain provinces or regions have so many (e.g., Ontario) or few (Atlantic Canada) companies?*

   There are many reasons why we see such numbers. For example, companies will oftentimes locate close to their suppliers and customers. In some cases, this is along the Canada-U.S. border. It is for this reason that companies also locate in large metropolitan cities (e.g., Toronto, Montreal, and Vancouver). As well, some provinces or regions may offer financial incentives (e.g., lower taxes) to encourage companies to locate in their boundaries. Depending on the company's goods and services, and the interests of the owner, technological advancements allow some companies to be run from any location.

3. *Review the most recent edition of Profit 500 for information on companies that have made the list. Are there any surprises? How much has changed since these results were posted?*

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The answer will vary depending on the latest information. Instructors should try to integrate some of the text information with these findings so that students can make a connection between the theory and Canadian business trends.

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LECTURE LINK 1-1
SOCIAL ENTREPRENEURSHIP: VILLAGE PHONES AND YOGURT

Muhammad Yunus, winner of the 2006 Nobel Prize for Peace, pioneered the practice of microcredit. His first loan was $27 out of his own pocket in the belief that the poor, particularly poor women, could be empowered as entrepreneurs if only they had the means to start their own small businesses. The institution he founded to fund them, Grameen Bank, transformed thinking in the banking and non-profit worlds.

Yunus saw an opportunity to empower impoverished villagers in Bangladesh in 1997. On March 26 of that year, Laily Begun became the first participant in Grameen Phone's Village Phone Program. The plan offers small loans, or microcredit, that enable people in one of the world's most impoverished countries to buy cell phones and rent them, call by call, to neighbours who can't afford telephones of their own. Begun borrowed 25,000 takas (the equivalent of about $580) to purchase a mobile telephone, a tall antenna, and a heavy-duty battery. Almost immediately, she began earning more than that in monthly profits—about $800 a month, about twice as much as the average Bangladeshi makes in an entire year.

A decade later, Begun now has a two-room brick house, a television set, and a refrigerator. Next door, she has built a barn, shops, and rental housing. Her net worth is about $145,000. Laily Begun's success has become legendary. Now the Village Phone Program has expanded ten-thousand-fold to include about 280,000 operators, mostly "phone ladies." The typical village phone lady has an average income three times the national average.

But the Village Phone Program may be becoming obsolete. Access to cell phones has expanded rapidly across Bangladesh. Grameen Phone, largest of the cell providers, has more than 13 million subscribers. The village phone lady is no longer the only phone in town. Begun must now compete with 284 other cell phone operators in her area. As a result, monthly profits have fallen to about $22. Many micro borrowers now focus on other money-making activities to supplement their phone income.

Now Yunus is turning his focus toward a broader concept, social business enterprise. Yunus believes firmly in Adam Smith's concept of profit-motivated free-market capitalism. But, he believes that it is flawed and too limited. Capitalism breeds wealth and competitors spread wealth by creating job opportunities. The industrialized world has indeed profited handsomely from free-market capitalism. The richest 2% of the world's adults, mostly Americans, Europeans, and Japanese, own more than half of global household wealth.

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So what isn't working? Half of the world's population still lives in poverty. (In Canada, an income inequality measure known as low-income cut-off published by Statistics Canada is frequently used as a poverty rate. As of 2005, it was 10.8%.) Yunus believes in thinking bigger about the concept of capitalism. "Many of the problems in the world remain unresolved because we continue to interpret capitalism too narrowly," Yunuz says. What if we lived in a world where companies didn't measure their performance only in terms of revenue? What if pharmaceutical companies reported on their bottom lines the number of lives saved by their drugs every quarter?

Yunus took his idea to Danone CEO Franck Riboud in 2005. Yunus invited the French yogurt company to come to Bangladesh and build the first social business enterprise. Riboud agreed. The yogurt Danone would make would be fortified to curb malnutrition and priced at 7 cents a cup to be affordable. Revenue would be reinvested, and Danone would take out only its initial cost of capital ($500,000) after three years. The factory will rely on Grameen Bank's micro borrowers buying cows to sell it milk on the front end. Grameen micro vendors will sell the yogurt door to door, and Grameen's 6.6 million members will purchase it. The first factory will employ 15 to 20 women and provide income for 1,600 people.

Ideas such as these are being discussed in corporate offices from GE to Coca-Cola, to Cargill. Marc Van Amerigen, executive director of the Global Alliance for Improved Nutrition says, "The new wave in business is, forget corporate social responsibility and philanthropy—how do you integrate this into your core business? The idea Danone has of creating a social dividend for shareholders—that's cutting edge" he says. "It supports your brand, returns your capital, you're not going to lose money, and you give your shareholders a vision of doing something good."

Sources: Sheridan Prasso, "Saving the World One Cup of Yogurt at a Time," *Fortune*, 19 February 2007; Richard Shaffer, "Unplanned Obsolescence," *Fast Company*, September 2007; and Armina Ligaya, "The debate over Canada's poverty line, CBC News Online, 12 November 2007, http://www.cbc.ca/news/background/economy/poverty-line.html.

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LECTURE LINK 1-2
IMPROVING WORLD HEALTH WITHOUT PROFITS

Knowing that Victoria Hale was a pharmaceutical scientist, a friend called her, desperate. Their 13-year-old daughter had been diagnosed with a deadly form of cancer called Ewing's sarcoma. The daughter's doctors were offering little hope, and the cancer was spreading fast. Could Hale help? With the aid of a former Food and Drug Administration colleague, she began searching for experimental compounds that might offer any ray of hope. They found two substances that had shown initial promise in fighting the cancer. But both were sitting idle on laboratory shelves. No one was working to develop the compounds into drugs. The cancer was too rare to create an attractive market for new treatments.

The young girl lost her battle with cancer, and Hale was determined to change things. She created OneWorld Health, the first U.S. non-profit pharmaceutical company.

Hale identified five disease categories that she believed could benefit from an aggressive drug development effort but would not be profitable. Her plan was this: find research on these diseases that had already been conducted, but nothing had been done because the drug would not be profitable. She would then persuade the pharmaceutical company to donate the information to her in return for tax write-offs. Finally, she would seek funding from foundations and others to make those drugs available.

Hale got $4.7 million from the Melinda Gates Foundation for researching diseases in the developing world. She also negotiated deals with the World Health Organization and the National Institutes of Health to do some clinical trials. Hale hopes that she can sell some drugs at a profit in order to continue her work. Presently, she is working on a number of projects, including a drug for Chagas disease, which kills nearly 50,000 people each year in Central and South America. Celera donated the research on an enzyme inhibitor that could kill the parasite that causes the disease.

As scientists and companies heard about the organization's efforts, many began calling to say "We've got something you might be interested in." Many scientists are also volunteering their time and expertise. Hale doesn't find this surprising. "Most pharmaceutical researchers got into the business because they wanted to ease suffering and save lives. Systems may be flawed, but most people want to do the right thing," says Hale.

All organizations need money to operate. One of the major sources of money is investors who give money to firms in order to make a profit. Those firms have to be profitable. Non-profit organizations usually rely on the donations from others to keep operating. Often that money comes from profit-making companies, like Celera, who are concerned about disease prevention, but can't stay in business unless they make a profit. Hale has found a way to link these organizations.

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Sources: Allison Overholt, "Health and the Profit Motive," *Fast Company,* February 2003, 38; and Victoria Hale, "Creating More Paths to Hope," *Newsweek*, 6 December 2004.

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LECTURE LINK 1-3
EDUCATION'S NEW WHITEBOARD

Technology advances have revolutionized the telecommunication industry, the computer industry, agriculture, manufacturing, and so on. Rarely mentioned, but just as surely transformed, is the non-profit sector, specifically education.

. For example, interactive whiteboards are essentially giant computer touch screens that allow teachers to display and change data with the touch of a finger. At schools fortunate enough to have them, interactive whiteboards are a blessing for educators struggling to engage a generation of students raised with the Internet. In the United Kingdom, 70% of all primary and secondary classrooms have interactive whiteboards, compared with just 16% in the U.S. Students in classrooms with interactive whiteboards made the equivalent of five months' additional progress in math. Multiple studies suggest that the devices boost attendance rates and classroom participation. At Dorchester School District 2 in Summerville, South Carolina, 1,200 interactive boards have been installed in the classrooms. "Students were bored," before the touch screens arrived, says Superintendent Joe Pye. "Trips to the principal's office are almost non-existent now."

But holding back universal deployment is the cost of the devices, currently about $3,000. For cash-strapped school districts, the cost is prohibitive. Teachers have taken to old-fashioned fund-raising to buy the new whiteboards. At Cartier Elementary School in London, Ontario, three elementary school teachers agreed to be duct-taped to the gym wall while students hit them with pies.

Another roadblock is the steep learning curve with the device. A generation gap has opened with teachers who are still more comfortable creating lesson plans with pencil and paper. Many older educators are afraid of the boards. Training is essential. Otherwise, it's just another underused, expensive gizmo.

Source: Matthew Philips, "It Makes Teachers Touchy," Newsweek, 22 September 2008.

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Name:_____

Date: _____

CRITICAL THINKING EXERCISE 1-1
MAKING ETHICAL DECISIONS

Throughout the textbook, you will see a box in each chapter called "Making Ethical Decisions." You will be given a short description of a situation and then asked what you would do in that situation. These boxes may or may not be assigned by your professor, but you will benefit greatly by reading them and answering the questions. If they are assigned, you probably won't be required to hand in a written report. Your professor will probably have no real way of knowing if you read the boxes and answered the questions. You are likely to be "on your honor."

This is your first ethical situation in this course: You come to a "Making Ethical Decisions" box in your text. What do you decide to do? Read and answer the questions or skip it and go on?

Use the questions below to help you make your decision.

1. What is the problem?

2. What are your alternatives?

3. What are the effects of each alternative? (What will happen if you choose that alternative?)

4. Which alternative will you choose? Why?

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5. Is your choice ethical? (Would you want your family and professor to know of your decision? Would you want it printed in the school paper? Is it fair to all parties involved?)

ANSWERS TO CRITICAL THINKING EXERCISE 1-1

It is easy to skip ethical boxes in a text because they don't seem to have any direct relationship to your main goal in this class—to learn about business so you can get a good job and make good money. The problem is that businesspeople tend to have the same attitude. They don't want to waste their time making ethical decisions—they want to make decisions that result in more profit for the firm.

There comes a time, however, when society must recognize the need for making moral and ethical decisions and this puts so much pressure on people that they conform. This can take the form of laws, but it is much easier to permit more freedom for people to choose to act morally and ethically on their own. You should encourage your students to choose what is right always and what is right in this case is to consider the moral and ethical ramifications of their business decisions so that it becomes automatic. "Is it right?" should be heard in corporate offices as often as "Is it profitable?"

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CRITICAL THINKING EXERCISE 1-2
JOB AND CAREER VERSUS OWNING A BUSINESS

To help make a decision about the advantages of pursuing a career and the advantages of owning your own business, use the list below to answer some basic questions. At the end, look at your two choices and see where you might have a reason to pursue your anticipated career or where you might find an interest and potential desire to be a small-business owner.

1. **CAREER SALARY OPPORTUNITIES** (circle one)

   Beginning Salary (average / good / excellent)

   Upper Job Salary (average / good / excellent)

2. **CAREER JOB OPPORTUNITIES** (circle one)

   Growing Field (yes / no)

   Requires High School Diploma / Trade School / College Diploma / University Degree / Graduate Degree (yes / no)

   Best Size Company For Career Job (small / medium-sized [50-499 employees] / large)

3. **SMALL BUSINESS OWNERSHIP OPPORTUNITIES** (circle one)

   (NOTE: Students may wish to review the discussion on Franchising)

   Requires Up Front Investment (small / medium-sized / large investment)

   Potential Franchise Has A Good Business Model (yes / no)

   Competition from Other Franchise Owners (non-existent /some competition / will be very competitive)

4. **POTENTIAL RETURN ON THE SMALL BUSINESS PURCHASE** (circle one)

   Provides Purchase of Additional Locations (yes / no)

   Has Name Recognition (yes / no)

   Has A Good Support System (yes / no)

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5. If you could, would pursuing your ideal career be worth the investment? (yes / no)

6. Are you willing to make the investment (i.e., more schooling) and work for moderate pay to get the knowledge and experience to make this investment pay off? (yes / no)

7. If you could investment in your own business, would you and could you obtain the necessary financing to make this happen? (yes / no)

8. Is the risk of the unknown in the business environment worth the pursuit of your time, money and family sacrifices to own your own business? (yes / no)

9. Given the two choices, what direction would you rather pursue?

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SUPPLEMENTAL CASE 1-1
THE WORLD'S LARGEST CHARITY

Bill Gates is the wealthiest person in the world. According to *Forbes* magazine, his net worth is $50 billion. But at the age 50, Bill Gates earned respect in a new way. Along with his wife Melinda, the chairman of Microsoft became the greatest philanthropist in history. Melinda, a former Microsoft colleague, has a bachelor's degree in computer science and economics and a master's degree in business from Duke University. (Bill dropped out of Harvard at the end of his sophomore year to run Microsoft.)

In its short existence, the Bill and Melinda Gates Foundation has already helped save at least 700,000 lives in poor countries through its investments in vaccinations. In the U.S., its library project has brought computers and Internet access to 11,000 libraries. The fund sponsored the biggest privately-funded scholarship program in history, sending over 9,000 high-achieving minority students to college. It is the largest foundation in the world, with an endowment of about $ 42 billion. Each year the Gates Foundation spends almost the same amount as the World Health Organization (WHO). In 1993, advisers gave Bill Gates a copy of the 1993 World Bank Development report. The document explained how many millions of people in poor countries die from diseases that already have cures. Then it listed the most cost-effective methods of preventing those deaths, from immunization to AIDS prevention to nutrition. The document reads like a blueprint for the Gates foundation.

In June 2006, Bill Gates announced that he was stepping down from full-time duties at Microsoft, giving up his role as chief software architect, to devote more attention to the Gates Foundation.

The Gateses run the Seattle-based foundation like a business. They are fluent in the science of public health, and both use the language of business to describe their philanthropic work. "There is no better return on investment than saving the life of a newborn," said Melinda.

The foundation has been able to instill a rare level of accountability from its grantees. In India, the Foundation runs an HIV AIDS-prevention program, headed by Ashok Alexander. Alexander calls the program's clinics "franchises." In 2005, Alexander cut off funding to three non-governmental organizations because they did not meet agreed-upon milestones. "People are not used to being terminated for non-performance," says Alexander.

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Gates did not keep his title of top philanthropist for long. In that same month that Gates left Microsoft, Warren Buffett announced that he planned to give away his stake in Berkshire-Hathaway, the company he founded, worth more than $44 billion. Buffett will divide the gift over five foundations, but the largest amount will go to the Gates Foundation. Buffett's donation exceeds the amounts given by the great philanthropists of the past. Andrew Carnegie's giving totaled about $380 million—$7.6 billion in today's dollars. Based on the Berkshire stock price on the day the gift was announced, Buffett's gifts would be worth $37 billion. Because the donation is in the form of Berkshire stock shares given over time, the total donation could grow in value as the company grows.

According to Buffett, he always intended to have his wife oversee his charitable giving when he died. But after she died in 2004, he saw an opportunity to invest in "an existing well-respected foundation run buy two ungodly bright people." He changed plans and started giving away his fortune in 2006. Buffett credits his late wife Susan for his change in priority. "We agreed with Andrew Carnegie, who said that huge fortunes that flow in large part from society should in large part be returned to society," said Buffett.

The gift more than doubled the size of the Gates Foundation. "We are awed by our friend Warren Buffett's decision to use his fortune to address the world's most challenging inequities," Bill and Melinda Gates said in a statement. "As we move forward with the work, we do so with a profound sense of responsibility. Working with Warren and with our partners around the world, we have a tremendous opportunity to make a positive difference in people's lives.

Sources: Amanda Ripley, "*Time* Persons of the Year: From Riches to Rags," *Time*, 26 December 2005-2 January 2006, 72-88; Liv Grossman, "Bill Gates: Giving it Away in Style," *Time*, 18 April 2005; Steven Levy, "Bill Gates Goes Part Time at Microsoft," *Newsweek,* 17 June 2006; Yuki Noguchi, "Gates Foundation to Get Bulk of Buffett's Fortune," *The Washington Post*, 26 June 2006; Carol J. Loomis, "Warren Buffett Gives Away his Fortune," *Fortune*, 25 June 2006; and information from www.gatesfoundation.org.

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DISCUSSION QUESTIONS AND ANSWERS FOR SUPPLEMENTAL CASE 1-1:

1. *How do Bill and Melinda Gates use basic business principles to run the Gates Foundation?*

They use business principles such as return on investment, responsibility, and accountability. Running a philanthropic enterprise is much the same as running a business. You have the same kind of goals, the same need for good workers, the same need to measure performance, and the same need to fire incompetent workers.

2. Since the foundation does not earn a profit, how should the success of the Foundation be judged?

Performance measures will differ based on the goals established. One goal may be to provide medicine for a certain number of people. Another might be to develop a vaccine for malaria within 6 months. Each goal calls for a different measure of success. One measure may be simply to raise the public's interest in an issue—such as poor schools – or decrease another measure – such as the overall poverty rate in a country.

3. Most philanthropists are wealthy individuals who begin their charitable work late in life after years of building an enterprise. Why do you think Gates started so early in his life?

Gates was encouraged to do so by other entrepreneurs. Bill and Melinda have a passion for certain causes, and are willing and able to back their wants with the finances necessary. Gates did not leave his business until it was running smoothly and people were in place to keep it going. In fact, new people may add new innovations and help the company to grow, creating more wealth for the Gates family, and more donations to worthy causes.

4. Why do you think Buffett chose the Gates Foundation for his record-breaking donation?

The Gates Foundation is run like a business, with clear mission, strategies, and controls. This appeals to a businessperson like Buffett. Also, since the donation is so large, most charities do not have the infrastructure to absorb it. The Gates Foundation already has a large global network in place.

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