

McMaster University

COMMERCE 1E03

Business Environment and Organization

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Term Test 1

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Exam Guide

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Chapter 3: Competing in Global Markets

The Dynamic Global Market

- The largest countries in the world are China (1.39 billion), India (1.34 billion) and the USA (326.4 million)
- BRIC: Brazil, Russia, India, China
 - *Know acronym for testing purposes*

Strategies for Reaching Global Markets

IMPORTANT FOR MIDTERM!

Licensing

- Least risky and amount of commitment
- A global strategy in which a firm (the licensor) allows a foreign company (the licensee) to produce a product in exchange for a fee (royalty)
- A company with an interest in licensing generally needs to send company representatives to the foreign producer to help set up the production process.
- Benefits of Licensing
 - Firms can gain revenues that it would not generate in its home market
 - Spend little-no money to produce and market their products

Exporting

- Manufacture product in domestic market and export it for sale in foreign markets
- Money is entering/getting into a country
- EXAMPLES OF IMPORT AND EXPORT:
 - Canadian taxi driver picks up a foreign manager
 - Export because the money is entering into the Canadian market
 - Canadian has a camera repaired in Portugal
 - Import because the money is entering a Foreign (Portugal) market

Franchising

- Contractual agreement where someone with a good idea for business sells the right to use the business name and sell its product in a given territory in a specified manner.
- Discussed further in Chapter 6

Contract Manufacturing

- Involves a foreign company's production of private label goods to which a domestic company then attaches its own brand name or trademark.
- Also called Off-Shoring

International Joint Ventures

- Joint venture is a partnership in which two or more companies join to undertake a major project.
- May be used to create new technology
 - A disadvantage to this is that shared technology may become obsolete

Strategic Alliances

- Long-Term Partnership
- Established to help build and achieve competitive market advantages

Foreign Direct Investments (FDI)

- Highest amount of risk and most commitment
- Buying permanent property and businesses in foreign nations
 - Creating another company in a foreign country
 - EXAMPLE: Walmart → Walmart Canada
 - Advantage of this is that it allows outside firms to have their own strategies in terms of accessing their local markets (i.e Marketing in India may be different to marketing in USA)
- Operates like a domestic firm with production, distribution...
- **Subsidiary** must observe the legal requirements of both, parent country and the host country

Types of Firms**1) International**

- Selling products the same way internationally as they do domestically
- "The world is the same" - What you see in Canada is what you see around the world

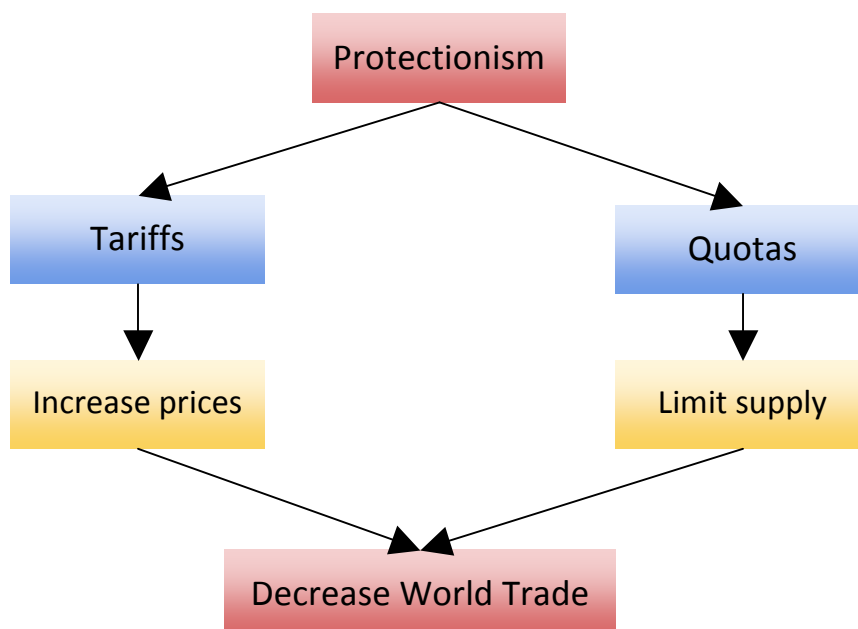
2) Multinational

- Firms view the world as consisting of unique parts and they market to each unique part differently
- EXAMPLE:
European brand, “Snuggle”, a fabric softener has a similar formula under 10 different brand names depending on different locations

3) Transnational

- Views the world as one market and emphasizes cultural similarities across countries or universal consumer needs and wants
- Multinational looks at differences between nations whereas Transnational focuses on similarities
- How to brand one product to different markets based on similarities

How Protectionism Affects World Trade



Two Types of Tariffs

- 1) Protective Tariffs: Import taxes
- 2) Revenue Tariffs: Generate funds for the government

Trade Protectionism: The use of government regulations to limit the import of goods and services; it allows domestic producers to survive and grow, producing more jobs

Import Quota: A limit on the number of products in certain categories that a nation can import

Embargo: A complete ban on the import or export of a certain product or the stopping of trade with a particular country

Bartering: An exchange of goods for goods or services for services

- Not an example of Trade Protectionism because the government does not get involved

Countertrading: A complex form of bartering in which several countries may be involved, each trading goods for goods or services for services

Chapter 5: Ethics and Corporate Social Responsibility (CSR)

Ethical Behaviour in Business

- **Ethics:** the moral principles and values that govern the actions and decisions of an individual or group
- **Laws:** society's values and standards that are enforceable in the courts
- **Morals:** rules people develop as a result of cultural values and norms

Factors influencing Managerial Ethics

- The following factors affect the decisions you make as a manager:
 - 1) Individual
 - Values
 - Work Background
 - Family Status
 - Personality
 - 2) Organizational
 - The Firm
 - Job Dimensions
 - 3) Environmental
 - What is going on outside the business that affects the business

Ethics Check Questions

1. Is it legal?
 - Am I violating any law or company policy?
 2. Is it balanced?
 - Am I acting fairly?
 - Would I want to be treated this way?
 3. How will it make me feel about myself?
 - Will I feel proud if my family and friends learned of my decision?
- Companies that develop a strong ethics code and use the three ethics-check questions presented above have a better chance than most of behaving ethically.
 - We cannot expect society to become more moral and ethical unless we as individuals commit to being moral and ethical ourselves.

How can an employer help?

- Have a code of ethics in place
- Must be communicated during orientation and BEYOND orientation
- Always be reminded

Compliance Based vs. Integrity Based

Compliance-Based Ethics Codes: Ethical standards that emphasize preventing unlawful behaviour by increasing control and by penalizing wrongdoers

- Conform to outside standards (laws and regulations)
- Avoid criminal misconducts
- Lawyers are leaders
- Education, reduced employee discretion, controls and penalties

Integrity-Based Ethics Code: Ethical standards that define the organization's guiding values, create an environment that supports ethically sound behaviour, and stress a shared accountability among employees

- Conform to outside standards AND chosen internal standards
- Enable responsible employee conduct
- Managers with aid of lawyers and others are leaders

Six Step Process that can help improve Business Ethics

1. Top management must adopt and support an explicit corporate code of conduct.
2. Employees must understand that expectations for ethical behaviour begin at the top and senior management expects all employees to act accordingly
3. Managers and others must be trained to consider ethical implications of all business decisions
4. An ethics office must be present. Whistleblowers must feel protected from retaliation as oftentimes this exposure can lead to great career and personal cost.
5. Outsiders (suppliers, distributors, customers) must be told about the ethics program.
6. The ethics code must be enforced. It is important to back any ethics program with timely action if any rules are broken.
 - An ethics contact is worthless if it is not enforced

Corporate Social Responsibility (Key Terms):

- CORPORATE SOCIAL RESPONSIBILITY (CSR): A concern business has for the welfare of the society. Based on a commitment to integrity, fairness and respect.
- CORPORATE PHILANTHROPY: Charitable donations to non-profit groups
- CORPORATE SOCIAL INITIATIVES: Enhanced forms of corporate philanthropy that are more directly related to the company's competencies.
- CORPORATE RESPONSIBILITY: Includes everything from hiring minority workers to making safe products, minimizing pollution and providing a safe work environment.
- CORPORATE POLICY: The position a firm takes on social and political issues

Chapter 4: The Role of Government in Business

EXAMPLE MIDTERM QUESTION:

Which of the following definitions is INCORRECT?

- A) Fiscal policy refers to the management of the money supply and interest rates
- B) A federal budget is a comprehensive report that reveals government financial policies for the coming year

ANS: A, *Definition of Monetary Policy*

Government Involvement within Businesses can be broken down into six categories:

- 1) Crown Corporations
- 2) Laws and Regulations
- 3) Taxation and Financial Policies
- 4) Government Expenditures
- 5) Purchasing Policies
- 6) Services

Crown Corporations

- A company that is owned by the federal or provincial government.
- Created for reasons such as:
 - Providing services that are not provided by firms
 - Bail out an industry in trouble
 - Provide services that could not otherwise be provided (i.e Bank of Canada)
- Deregulating or partially deregulating industries
 - Easing the rules and regulations to operate in a specific industry
 - Corresponds with a Capitalistic approach
- EXAMPLE: LCBO
 - Defined as a “Cash cow”, Crown Corporation
 - Revenue pays for healthcare, education, infrastructure and other important services
 - Heavily regulated

Laws and Regulations

- Derived from the four sources:
 - Constitution Act
 - Precedents established by judges
 - Federal and Provincial Statutes/Laws
 - Federal and Provincial Administrative Agencies

- Make sure the Constitution Act is being followed
- Agencies operate on behalf of the government and make sure that laws are being regulated and implemented

Sharing Economy: A sharing economy is an economic system in which assets or services are shared between private individuals, either free or for a fee, typically by means of the Internet (e.g Uber)

Federal Parliament

- *NOTE: List on PPT Presentation on all the Responsibilities and ONE QUESTION on MIDTERM*
- Key responsibilities include:
 - Trade regulations
 - Immigration
 - Unemployment
 - The Public Debt
 - Criminal Law
 - Bankruptcy
 - Taxation

Provincial Parliament Responsibilities

- Responsibilities include:
 - direct taxation for provincial purposes
 - regulation for provincial trade and commerce
 - incorporation of provincial companies
 - education
 - property and civil law
 - the administration of justice
 - municipal affairs (roughly 4,000 municipal governments)
 - the hospital system
 - natural resources within their boundaries
 - labor legislation
 - social security
 - shared power over pensions

EXAMPLE MIDTERM QUESTION:

- 1) _____ is a provincial government responsibility while _____ is a federal government responsibilities?

ANS: Municipal, Pension

- 2) The removal of interprovincial trade barriers would:

ANS: Improve business efficiencies

Taxation and Financial Policies

- We as customers have the right to choose what we buy (which is why items that can potentially harm us, though illegal to sell substances that can kill us like cigarettes, are sold)
- Canada Revenue Agency (CRA) administers tax laws for the Government of Canada and for most provinces and territories as well as various programs that are delivered through the tax system
- *Fiscal Policy*: the federal government's effort to keep the economy stable by increasing or decreasing taxes or government spending
- National Debt
 - Approx. \$1.1 TRILLION
 - Excludes provincial debt
 - Remember for Midterm!!!!

Government Expenditures

- Government pay out money to the:
 - Unemployed (EI - Employment Insurance)
 - Old-Age Pensions
 - Low-Income Families
 - Workers Compensations
- Direct and indirect aid packages are provided by all levels of government:
 - Equalization Transfers Programs
 - Ontario has receive equalization payments in the past
 - Tax Reductions
 - Tariffs and Quotas on Imports

Purchasing Policies

- This is where "Boards and Councils" come in
- The federal government is the single largest purchaser in Canada (approx. \$300 billion)
- Provinces tend to favour companies within their boundaries
- Companies go through bidding process in order to get large government contracts

Services (Government Sources Available to Assist Canadian Businesses)

- BOC (Business Development Bank of Canada)
 - Consulting and Venture Capital
 - Emerging and Exporting Sectors
- Industry Canada
 - Developing Industry and Technology Capability, Fostering scientific research and promoting investment tools

Midterm Review

Tutorial Overview and Remarks

- First Presentation the week after midterm
 - Deducted marks if less than 3 different sources of secondary research
 - Examples of Secondary Research:
 - Journal / Book
 - Article
 - Magazine

Midterm Tips given by Cossa

- Types of Questions to familiarize yourself with for the Midterm:
 - Which of the following statements is INCORRECT?
 - Which of the following is NOT an example of...?
 - What of the following trends is NOT correct?
- Be familiar with acronyms
 - FDI - Foreign Direct Investment
 - CSR - Corporate Social Responsibility
 - BRIC - Brazil, Russia, India, China
- Review Exam Questions on Avenue*
- Review Figures from the Textbook
 - Foreign Market Entry Strategies (Chapter 3)
 - Economic Strategies (Chapter 2)
- Some numbers to note for Midterm:
 - 1.1 Trillion - Canada's National Debt
 - For every dollar a Canadian makes, they owe close to **1.70**

Sample Midterm Questions (Given in Class)

1) Which of the following persons would be able to tend to favor a socialist economy? (**ANS:**

C)

A. John wants to live in a country with low tax rates. (*Socialism has high taxes, low taxes is Capitalism*)

B. Nilesch wants to live in a country with public ownership of all business (*Communism example - Public ownership of all business is communism*)

C. Dora prefers to live in a country that has a strong public health-care System

2) From Canada's perspective, which of the following are exports?

Canadian Taxi Driver picks up Foreign Manager - *EXPORT*

Canadian vacations in Cuba - *IMPORT*

Canadian produced TV show is broadcasted in England - *EXPORT* (TV show is sold outside of the country)

3) What is the THIRD step to improve Business Ethics?

ANS: *Ethics embedded in training*

1. Top Management Support
2. Expectations begin at the top
- 3. *Ethics embedded in training***
4. Ethics office set up
5. External stakeholders informed
6. There must be enforcement

Good Luck!!