3.7: Trends in the Business Environment and Competition

8. Which trends are reshaping the business, microeconomic, and macroeconomic environments and competitive arena?

Trends in the business and economic environment occur in many areas. As noted earlier, today's workforce is more diverse than ever, with increasing numbers of minorities and older workers. Competition has intensified. Technology has accelerated the pace of work and the ease with which we communicate. Let's look at how companies are meeting the challenges of a changing workforce, the growing demand for energy, and how companies are meeting competitive challenges.

Changing Workforce Demographics

As the baby boomer generation ages, so does the U.S. workforce. In 2010, more than 25 percent of all employees were retirement age. Fast forward to the U.S. labor force in 2017, however, and millennials have taken over the top spot in the labor market, with more than 40 percent of the total workforce. Although older workers are now retiring closer to the traditional retirement age of 65, many plan to keep working beyond 65, often into their 70s. No longer is retirement an all-or-nothing proposition, and older workers in the baby boomer generation are taking a more positive attitude toward their later years. A surprising number of Americans expect to work full- or part-time after "retirement," and most would probably work longer if phased retirement programs were available at their companies. Financial reasons motivate most of these older workers, who worry that their longer life expectancies will mean outliving the money they saved for retirement, especially after retirement savings took a hit during the global recession of 2007–2009. For others, however, the satisfaction of working and feeling productive is more important than money alone.[29]

These converging dynamics continue to create several major challenges for companies today. And by 2020, additional generational shifts are projected to occur in the U.S. labor force, which will have an even bigger effect on how companies do business and retain their employees. Today's workforce spans five generations: recent college graduates (Generation Z); people in their 30s and 40s (millennials and Generation X); baby boomers; and traditionalists (people in their 70s). It is not unusual to find a worker who is 50, 60, or even 70 working for a manager who is not yet 30. People in their 50s and 60s offer their vast experience of "what's worked in the past," whereas those in their 20s and 30s tend to be experimental, open to options, and unafraid to take risks. The most effective managers will be the ones who recognize generational differences and use them to the company's advantage.[30]

Many companies have developed programs such as flexible hours and telecommuting to retain older workers and benefit from their practical knowledge and problem-solving skills. In addition, companies should continually track where employees are in their career life cycles, know when they are approaching retirement age or thinking about retirement, and determine how to replace them and their knowledge and job experiences.[31]

Another factor in the changing workforce is the importance of recognizing diversity among workers of all ages and fostering an inclusive organizational culture. According to a recent report by the U.S. Census Bureau, millennials are the largest generation in U.S. history, and more than 44 percent classify themselves as something other than "white." In addition, women continue to make progress on being promoted to management, although their path to CEO seems to be filled with obstacles. Recent statistics suggest that fewer than 5 percent of Fortune 500 companies have female CEOs. The most successful organizations will be the ones that recognize the importance of diversity and inclusion as part of their ongoing corporate strategies.[32]

MANAGING CHANGE

EY Makes Diversity and Inclusion a Top Priority

As older workers continue to leave the U.S. labor force and younger individuals begin work or move to other jobs to further their careers, businesses must recognize the importance of diversity and inclusion as key corporate strategies. This is particularly critical as multicultural millennials become the dominant group in the U.S. workforce. One leader in embracing diversity as an important part of corporate life is EY (formerly Ernst & Young), a global leader in assurance, tax, and advisory services.

EY believes its core values and business strategies are firmly based on diversity and inclusiveness, as evidenced by the company landing in the top spot of DiversityInc's 2017 list of the top companies for diversity. This recognition for EY is no accident; the company has made diversity and inclusion key goals for its more than 214,000 employees around the world. With a diverse workforce becoming the norm, it is no longer acceptable for companies to simply hold a random seminar or two for their managers and employees to discuss diversity and inclusion in the workplace.

Karyn Twaronite, EY's global diversity and inclusion officer, believes that a simple, ongoing approach is the most effective way to address diversity and inclusion in the workplace. The company uses a decision-making strategy called PTR, or preference, tradition, and requirement, to help managers think about diversity and inclusion. The strategy challenges managers to examine preferences toward job candidates who are similar to themselves, asks them whether their decision about hiring a specific candidate is influenced by traditional characteristics of a certain role, and urges them to make their selection based on the requirements of the job rather than on their personal preferences. In other words, the decision-making tool gives people a way to question the status quo without accusing colleagues of being biased.

Another way EY fosters inclusiveness is sponsoring professional network groups within the organization. These groups provide members with opportunities to network across various EY divisions, create informal mentoring relationships, and strengthen leadership skills. Some of the established networks within EY include groups for LGBT employees; blacks, Latinos, and pan-Asians; women; veterans; and employees with disabilities.

As a global company that works with clients in many countries, EY knows the importance of acknowledging different perspectives and cultures as part of its daily business. The company is committed to making sure employees as well as clients respect different viewpoints and individual differences, including background, education, gender, ethnicity, religious background, sexual orientation, ability, and technical skills. According to EY's diversity web page, research shows that a company's diverse teams are more likely to improve market share and have success in new markets and that they demonstrate stronger collaboration and better retention.

Questions for Discussion

1. How does EY's approach to diversity and inclusion translate to additional revenues for the company?
2. Would a company's commitment to diversity make a difference to you when interviewing for a job? Why or why not?

Sources: Company website, "A Diverse and Inclusive Workforce," http://www.ey.com, accessed May 29, 2017; "DiversityInc Top 50: #1—EY: Why They're on the List," http://www.diversityinc.com, accessed May 29, 2017; "Founded on Inclusiveness; Strengthened by Diversity: A Place for Everyone," exceptionaley.com, accessed May 29, 2017; Grace Donnelly, "Here's EY's Simple But Effective Strategy for Increasing Diversity," *Fortune*, http://fortune.com, February 10, 2017.

Global Energy Demands

As standards of living improve worldwide, the demand for energy continues to rise. Emerging economies such as China and India need energy to grow. Their demands are placing pressure on the world's supplies and affecting prices, as the laws of supply and demand would predict. For example, in recent years, China and India were responsible for more than half of the growth in oil products consumption worldwide. State-supported energy companies in China, India, Russia, Saudi Arabia, and other countries will place additional competitive pressure on privately owned oil companies such as BP, Chevron, ExxonMobil, and Shell.[33]

Countries worldwide worry about relying too heavily on one source of supply for energy. The United States imports a large percentage of its oil from Canada and Saudi Arabia. Europeans get 39 percent of their natural gas from Russia's state-controlled gas utility OAO Gazprom.[34] This gives foreign governments the power to use energy as a political tool. For example, continuing tensions between Russia and Ukraine in November 2015 caused Russia to stop sending natural gas to Ukraine, which also causes gas disruptions in Europe because Russia uses Ukraine's pipelines to transport some of its gas deliveries to European countries. In 2017, Russia announced plans to build its own pipeline alongside Ukraine's gas line in the Baltic Sea, which would allow Russia to bypass Ukraine's pipelines altogether and deliver gas directly to European countries.[35]

Countries and companies worldwide are seeking additional sources of supply to prevent being held captive to one supplier. For example, the relatively new technology of extracting oil from shale rock formations in the United States (known as fracking) has help create an important resource for the country's oil industry. This innovative approach to finding new sources of energy now accounts for more than half of the country's oil output, which can help reduce U.S. dependence on foreign oil and create new jobs.[36]

Meeting Competitive Challenges

Companies are turning to many different strategies to remain competitive in the global marketplace. One of the most important is **relationship management**, which involves building, maintaining, and enhancing interactions with customers and other parties to develop long-term satisfaction through mutually beneficial partnerships. Relationship management includes both *supply chain management*, which builds strong bonds with suppliers, and *relationship marketing*, which focuses on customers. In general, the longer a customer stays with a company, the more that customer is worth. Long-term customers buy more, take less of a company's time, are less sensitive to price, and bring in new customers. Best of all, they require no acquisition or start-up costs. Good long-standing customers are worth so much that in some industries, reducing customer defections by as little as five points—from, say, 15 percent to 10 percent per year—can double profits.

Another important way companies stay competitive is through **strategic alliances** (also called *strategic partnerships*). The trend toward forming these cooperative agreements between business firms is accelerating rapidly, particularly among high-tech firms. These companies have realized that strategic partnerships are more than just important—they are critical. Strategic alliances can take many forms. Some companies enter into strategic alliances with their suppliers, who take over much of their actual production and manufacturing. For example, Nike, the largest producer of athletic footwear in the world, does not manufacture a single shoe.

Other companies with complementary strengths team up. For example, Harry's Shave Club, an online men's grooming subscription service, recently teamed up with retail giant Target to improve sales and boost its brand presence among Target shoppers. Harry's products are now available in Target's brick-and-mortar stores and on Target's website as part of an exclusive deal that makes Targetthe only mass retailer to carry Harry's grooming products. The men's shaving industry accounts for more than $2.6 billion in annual sales.[37]

CONCEPT CHECK

1. What steps can companies take to benefit from the aging of their workers and to effectively manage a multigenerational workforce?
2. Why is the increasing demand for energy worldwide a cause for concern?
3. Describe several strategies that companies can use to remain competitive in the global economy.
