

UNDERSTANDING

Business

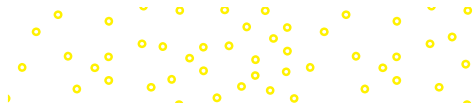
TWELFTH EDITION



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UNDERSTANDING **Business**

TWELFTH EDITION



William G. Nickels

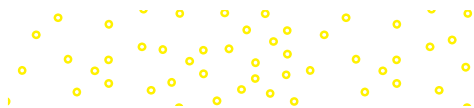
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APPLIED LEARNING SYSTEMS





UNDERSTANDING BUSINESS, TWELFTH EDITION

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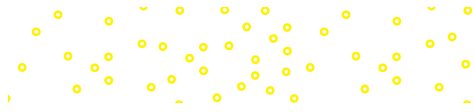
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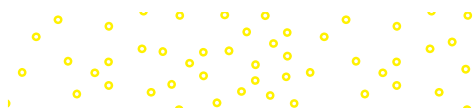


DEDICATION

To our families—Marsha, Joel, Carrie, Claire, Casey, Dan, Molly, Michael, Patrick, and Quinn. Thank you for making everything worth doing and giving us the support to do it well!

AND

To the team that made this edition possible, especially the instructors and students who gave us such valuable guidance as we developed the text and package.



ABOUT THE AUTHORS

Bill Nickels is emeritus professor of business at the University of Maryland, College Park. He has over 30 years' experience teaching graduate and undergraduate business courses, including introduction to business, marketing, and promotion. He has won the Outstanding Teacher on Campus Award four times and was nominated for the award many other times. He received his MBA degree from Western Reserve University and his PhD from Ohio State University. Bill has written a marketing communications text and two marketing principles texts in addition to many articles in business publications. He has taught many seminars to businesspeople on subjects such as power communications, marketing, nonbusiness marketing, and stress and life management. His son, Joel, is a professor of English at the University of Miami (Florida).



Jim McHugh holds an MBA degree from Lindenwood University and has had broad experience in education, business, and government. As chair of the Business and Economics Department of St. Louis Community College-Forest Park, Jim coordinated and directed the development of the business curriculum. In addition to teaching several sections of Introduction to Business each semester for nearly 30 years, Jim taught in the marketing and management areas at both the undergraduate and graduate levels. Jim enjoys conducting business seminars and consulting with small and large businesses. He is actively involved in the public-service sector and served as chief of staff to the St. Louis County Executive.



Susan McHugh is a learning specialist with extensive training and experience in adult learning and curriculum development. She holds an MEd degree from the University of Missouri and completed her course work for a PhD in education administration with a specialty in adult learning theory. As a professional curriculum developer, she has directed numerous curriculum projects and educator training programs. She has worked in the public and private sectors as a consultant in training and employee development. While Jim and Susan treasure their participation in writing projects, their greatest accomplishment is their collaboration on their three children. Casey is carrying on the family's teaching tradition as an adjunct professor at Washington University. Molly and Michael are carrying on the family writing tradition by contributing to the development of several supplementary materials for this text.



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THE GOLD★★★★

STANDARD IN PREPARING FUTURE-READY LEARNERS

Congratulations. You've made an excellent selection. Welcome to the preeminent teaching and learning experience ever created for Introduction to Business classes.

Our experienced and diverse authors and long-tenured editorial team have created a product that meets the needs of nearly all classrooms, no matter the size, teaching modality, or learning objectives. The content is unmatched in depth, breadth, currency, and relevancy, and is presented in an extremely readable format for students with all learning styles. A wealth of technology solutions engages students, enriches learning, furthers understanding, and simplifies instructors' assessment processes. Course supplements tightly align with chapter concepts and enhance retention, making instructors of all experience levels Grade-A rock stars. And unparalleled support from our digital faculty consultants helps ensure you and your students benefit from the full experience of what is now the gold standard in Introduction to Business classes. Nickels/McHugh/McHugh, *Understanding Business*, 12th Edition does more than teach—it prepares students to create real impact on the world.

1. THE GOLD STANDARD IN RELEVANCY AND CURRENCY

Real-world case studies—across nearly all industries and company sizes—ensure your students are apprised of the most current challenges businesspeople face today. From Brexit and ransomware to 3D printing and robo-advisors, you have access to numerous relevant samples that tie directly into chapter lessons. Plus with the option to take advantage of the **From the News to the Classroom blog**, you can enrich the learning experience with content that is updated multiple times each week and includes abstracts of relevant news stories, videos tied to chapter topics, and critical thinking questions that streamline your prep time and help create an ultra-current course.

2. THE GOLD STANDARD IN RESULTS-DRIVEN TECHNOLOGY

Interactive learning tools increase teaching effectiveness and learning efficiency by facilitating a stronger connection between the course material and the modern student.

Where the Science of Learning Meets the Art of Teaching

McGraw-Hill Connect is the leading online assignment and assessment solution that connects students with the tools and resources they need to achieve success. It also allows instructors to quickly and easily choose the content and assignments that will best emphasize the learning objectives they prefer to cover. The result is a customized course, rich with engaging presentations and activities that prepare students for the business world.

The First and Only Adaptive Reading Experience

SmartBook creates a dynamic reading experience and personalizes content for each student, helping students master and retain foundational concepts. Tracking each student's progress, it automatically assesses comprehension levels and



delivers the content required to reinforce topics needing more attention. This continuously adaptive learning path is proven to accelerate learning and strengthen memory recall, all while providing instructors a turnkey tool that ensures students stay on track.

Bridging the Gap between Theory and Real Life

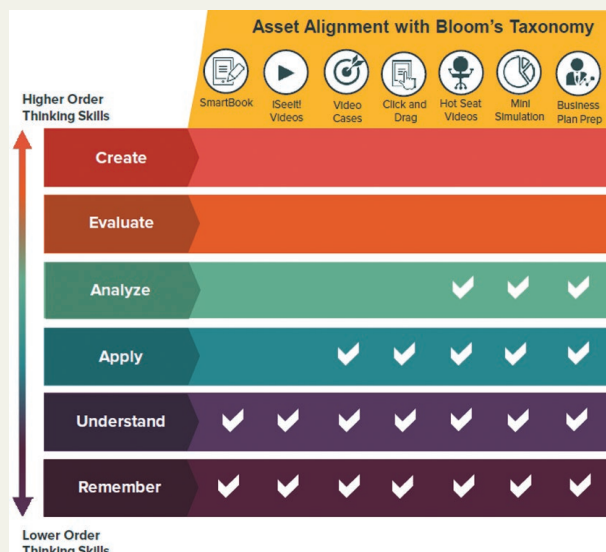
Having knowledge is the first step—and understanding how to apply that knowledge is what determines a person’s success in the working world. That’s why we provide an array of application exercises that are as educational as they are engaging. *Click-and-Drag* exercises reinforce key models and processes, and demonstrate application-level knowledge. *Video Cases* allow students to observe and analyze key concepts as they are utilized by companies and organizations they know and recognize. Case analyses expose students to real-world scenarios and engage their critical-thinking and analysis skills. And 20-minute *Mini-Simulations* put students in the role of business professionals, allowing them to make decisions and learn from the results.

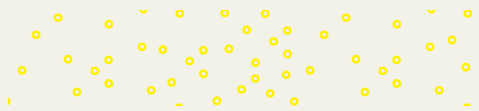
3. THE GOLD STANDARD IN TEACHING RESOURCES

Whether it’s your first or fortieth year teaching, you can benefit from a wealth of assessments and class-tested resources that simplify your evaluation process and enrich the learning experience.

Assessment Tools:

- **SmartBook**, which holds students accountable for class preparation and engagement.
- **Chapter quizzes** that are prebuilt to cover all chapter learning objectives.
- **Test bank** that is by far the largest and most accurate collection of questions on the market, with over 300 questions per chapter.
- **Application exercises** reinforce concepts and facilitate application-level comprehension.
- **Video assignments** help explain difficult concepts and show business concepts in action in companies large and small.
- **Mini-simulations** allow students to immerse themselves in critical-thinking and problem-solving opportunities of realistic business scenarios.
- **Business Plan Prep assignments** support students building their semester project.





Additional Resources:

- **New teacher’s resource manual** includes tools to improve retention and engagement, while helping save the instructor’s time.
- **From the News to the Classroom blog** is updated multiple times each week, featuring abstracts of relevant news stories, video tied to chapter topics, and critical-thinking questions that streamline your prep time and help create an ultra-current course.
- **PowerPoint presentations** include integrated polling questions that improve student engagement.
- **Test bank and quizzes** are unparalleled in the number of test items provided and the depth and currency, and make testing student knowledge a simple and efficient process.
- **Video library** with Video Teaching Guide includes:
 - **Company case videos** produced specifically to expound on chapter learning objectives via real-world business situations across a broad range of industries, sizes, and geographic locations, allowing students to contextualize the chapter’s content.
 - **Hotseat videos** offer short cases that show real business professionals confronting a variety of workplace challenges.
 - **iSeelt! animated video explanations** clarify some of the most important topics and can be accessed within the e-book.
 - **Current video clips** on the From the News to the Classroom blog tie to chapter topics and keep your classroom current.

4. THE GOLD STANDARD IN SUPPORT, SERVICE, AND SOLUTIONS

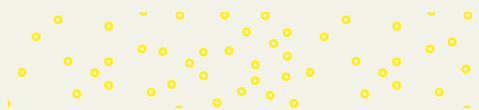
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Our team of digital faculty consultants and extensive toolbox of support programs ensure you receive the full value of all this product has to offer.

THE BOTTOM LINE

The business world is constantly changing, and your classroom needs to keep up. With Nickels/McHugh/McHugh, *Understanding Business*, 12th Edition, both you and your students can experience *the Gold Standard* in Introduction to Business classes.





CHANGES TO THE NEW EDITION

Users of *Understanding Business* have always appreciated the currency of the material and the large number of examples from companies of all sizes and industries (e.g., service, manufacturing, nonprofit, and profit) in the United States and around the world. A glance at the Chapter Notes will show you that almost all of them are from 2016 or 2017. Accordingly, the latest business practices and other developments affecting business include:

- Brexit
- Compassionate capitalism
- Gig economy
- Withdrawal from TPP
- Lifting of Cuba trade restrictions
- UN's Sustainable Development Goals (SDGs)
- Social media advertising
- Social networking
- Benefit corporations
- Circular economy
- Products as services
- Human Resource Information Systems (HRISs)
- Market-based pay structure
- On-call scheduling
- Continuous performance reviews
- Bullying in the workplace
- Ban-the-box job application and initial interview rule
- Holocracy
- Drones
- 3D printing and additive manufacturing
- Wells Fargo and Volkswagen scandals
- 2016 Supreme Court decision on insider trading
- Robo-advisors
- Ransomware
- And much, much more

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Many dedicated educators and content experts made extraordinary contributions to the quality and utility of this teaching and learning package. For this edition, Molly McHugh did an exceptional job in preparing the Test Bank. Diana Murphy and her team at Editors Inc. did a superb job of creating a useful and current Teacher's Resource Manual. We also recognize the efforts of those who contributed to the creation of Connect materials: Robin James at Harper College and Stacy Martin at Southwestern Illinois College. We are grateful to our SmartBook team, in particular to Judy Bulin at Monroe Community College, who tirelessly worked to review and perfect the probes and feedback, and respond to student queries. Thank you to Kelly Luchtman and team at Lightfellow for the fabulous new videos they produced. Thank you to the Digital Faculty Consultants who have helped train and support

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Our outstanding marketing manager, Gabe Fedota, and marketing director, Robin Lucas, were up to the challenge of guiding the text to continued market leadership. With the assistance of the market's finest sales professionals, they led the text to record highs. We want to thank the many instructors who contributed to the development of *Understanding Business*.

REVIEWERS

We would like to thank the following instructors for sharing with us their opinions, input, and advice—all of which contributed to the development of each edition:

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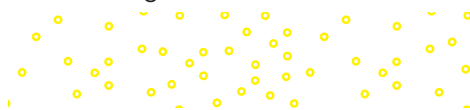
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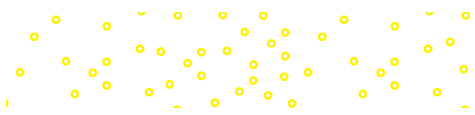
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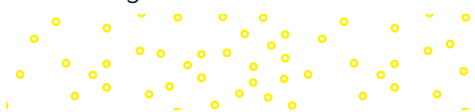
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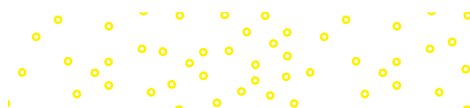
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This edition continues to be the market's gold standard due to the involvement of these committed instructors and students. We thank them all for their help, support, and friendship.

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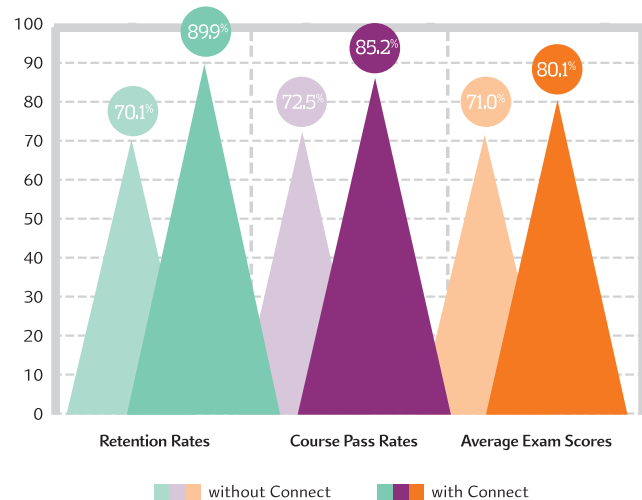


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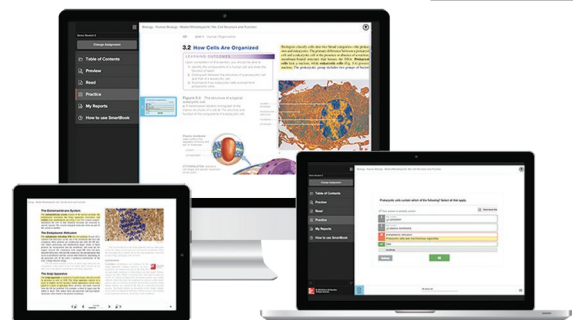
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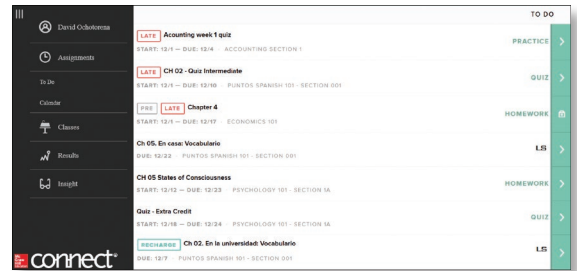


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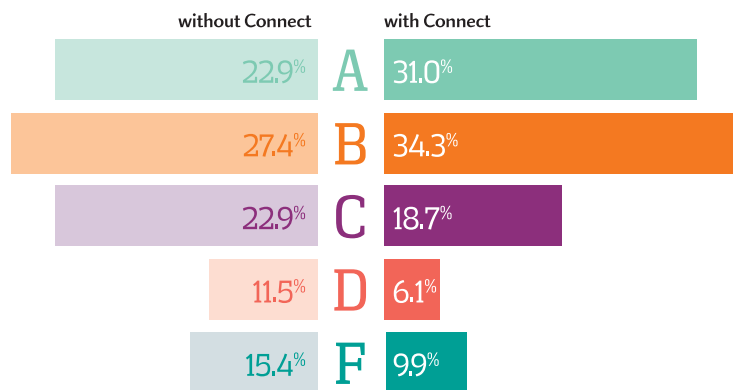
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BRIEF CONTENTS

Gold Standard v

Prologue: Getting Ready for This Course
and Your Career P

PART 1

Business Trends: Cultivating a Business in Diverse, Global Environments

- 1 Taking Risks and Making Profits within the Dynamic
Business Environment 2
- 2 Understanding Economics and How It Affects
Business 26
- 3 Doing Business in Global Markets 56
- 4 Demanding Ethical and Socially Responsible
Behavior 86

PART 2

Business Ownership: Starting a Small Business

- 5 How to Form a Business 110
- 6 Entrepreneurship and Starting a Small
Business 140

PART 3

Business Management: Empowering Employees to Satisfy Customers

- 7 Management and Leadership 168
- 8 Structuring Organizations for Today's
Challenges 190
- 9 Production and Operations Management 216

PART 4

Management of Human Resources: Motivating Employees to Produce Quality Goods and Services

- 10 Motivating Employees 240

- 11 Human Resource Management: Finding and Keeping
the Best Employees 266

- 12 Dealing with Employee–Management Issues 300

PART 5

Marketing: Developing and Implementing Customer-Oriented Marketing Plans

- 13 Marketing: Helping Buyers Buy 326
- 14 Developing and Pricing Goods and Services 352
- 15 Distributing Products 380
- 16 Using Effective Promotions 408

PART 6

Managing Financial Resources

- 17 Understanding Accounting and Financial
Information 434
- 18 Financial Management 462
- 19 Using Securities Markets for Financing and Investing
Opportunities 488
- 20 Money, Financial Institutions, and the Federal
Reserve 518

Bonus Chapters

- A Working within the Legal Environment 544
- B Using Technology to Manage Information 566
- C Managing Risk 592
- D Managing Personal Finances 606

EPILOGUE 628

- Glossary 642
Name Index 661
Organization Index 669
Subject Index 673

Gold Standard v

PROLOGUE

Getting Ready for This Course and Your Career P

Learning the Skills You Need to Succeed Today and Tomorrow P-1

Using This Course to Prepare for Your Career P-2

Assessing Your Skills and Personality P-3

Using Professional Business Strategies Right Now P-3

Learning to Behave Like a Professional P-4

Doing Your Best in College P-6

Study Hints P-6

Test-Taking Hints P-8

Time Management Hints P-9

Making the Most of the Resources for This Course P-10

Getting the Most from This Text P-11

PART 1

Business Trends: Cultivating a Business in Diverse, Global Environments 2

CHAPTER 1

Taking Risks and Making Profits within the Dynamic Business Environment 2

GETTING TO KNOW ANN-MARIE CAMPBELL OF HOME DEPOT 3

Business and Wealth Building 4

Revenues, Profits, and Losses 4

Matching Risk with Profit 4

Standard of Living and Quality of Life 5

Responding to the Various Business Stakeholders 5

Using Business Principles in Nonprofit Organizations 6

The Importance of Entrepreneurs to the Creation of Wealth 7

The Five Factors of Production 8

The Business Environment 9

The Economic and Legal Environment 9

The Technological Environment 11

ADAPTING TO CHANGE UP, UP, AND AWAY 12

The Competitive Environment 13

The Social Environment 14

The Global Environment 15

REACHING BEYOND OUR BORDERS HOLLYWOOD CLIMBS THE GREAT WALL 16

The Evolution of U.S. Business 17

Progress in the Agricultural and Manufacturing Industries 17

Progress in Service Industries 18

ADAPTING TO CHANGE SERVICES EXPAND THE CIRCULAR ECONOMY 18

Your Future in Business 19

Summary 20

Key Terms 22

Career Exploration 22

Critical Thinking 22

Developing Career Skills 23

Putting Principles to Work 23

Video Case: Grubhub and the Dynamic Business Environment 24

Notes 24

CHAPTER 2

Understanding Economics and How It Affects Business 26

GETTING TO KNOW THOMAS PIKETTY, ECONOMIST 27

How Economic Conditions Affect Businesses 28

What Is Economics? 29

The Secret to Creating a Wealthy Economy 29

Adam Smith and the Creation of Wealth 30

ADAPTING TO CHANGE WORLD POPULATION IS POPPING 30

How Businesses Benefit the Community 31

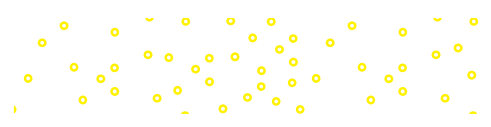
Understanding Free-Market Capitalism 32

How Free Markets Work 34

How Prices Are Determined 34

The Economic Concept of Supply 35

The Economic Concept of Demand 35



The Equilibrium Point, or Market Price 35
 Competition within Free Markets 36
 Benefits and Limitations of Free Markets 37

MAKING ETHICAL DECISIONS BAD MEDICINE FOR CONSUMERS? 37

Understanding Socialism 38
 The Benefits of Socialism 39
 The Negative Consequences of Socialism 39

Understanding Communism 39

The Trend Toward Mixed Economies 40

Understanding the U.S. Economic System 41
 Key Economic Indicators 42
 Productivity in the United States 44

REACHING BEYOND OUR BORDERS INFLATION AT THE SPEED OF SOUND 44

Productivity in the Service Sector 45
 The Business Cycle 45
 Stabilizing the Economy through Fiscal Policy 46
 Using Monetary Policy to Keep the Economy Growing 47

Summary 48

Key Terms 50

Career Exploration 50

Critical Thinking 50

Developing Career Skills 51

Putting Principles to Work 51

Video Case: Opportunity International: Giving the Poor a Working Chance 52

Notes 53

CHAPTER 3

Doing Business in Global Markets 56

GETTING TO KNOW INDRA KRISHNAMURTHY NOOYI, CEO OF PEPSICO 57

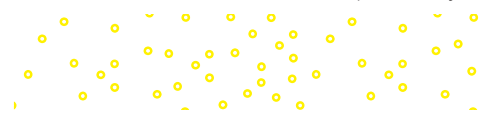
The Dynamic Global Market 58

Why Trade with Other Nations? 59
 The Theories of Comparative and Absolute Advantage 60

Getting Involved in Global Trade 60
 Importing Goods and Services 61
 Exporting Goods and Services 61
 Measuring Global Trade 61

CONNECTING THROUGH SOCIAL MEDIA MY HOME IS YOUR HOME 62

Strategies for Reaching Global Markets 64
 Licensing 64
 Exporting 65
 Franchising 65



ADAPTING TO CHANGE MANY FLAGS FLY OVER THE GOLDEN ARCHES 66

Contract Manufacturing 67
 International Joint Ventures and Strategic Alliances 67
 Foreign Direct Investment 68

Forces Affecting Trading in Global Markets 69
 Sociocultural Forces 69
 Economic and Financial Forces 70
 Legal and Regulatory Forces 72
 Physical and Environmental Forces 73

Trade Protectionism 73

MAKING ETHICAL DECISIONS EXPORTING YOUR PROBLEMS AWAY 73

The World Trade Organization 74
 Common Markets 75
 The North American and Central American Free Trade Agreements 76

The Future of Global Trade 77

The Challenge of Offshore Outsourcing 78
 Globalization and Your Future 79

Summary 80

Key Terms 81

Critical Exploration 82

Critical Thinking 82

Developing Career Skills 82

Putting Principles to Work 83

Video Case: Electra Bicycle Company 83

Notes 84

CHAPTER 4

Demanding Ethical and Socially Responsible Behavior 86

GETTING TO KNOW AARON AND EVAN STEED, CO-FOUNDER OF MEATHEAD MOVERS 87

Ethics Is More Than Legality 88
 Ethical Standards Are Fundamental 90

Ethics Begins with Each of Us 90

Managing Businesses Ethically and Responsibly 91

MAKING ETHICAL DECISIONS ETHICS BEGINS WITH YOU 91

Setting Corporate Ethical Standards 92

Corporate Social Responsibility 94

Responsibility to Customers 96
 Responsibility to Investors 98
 Responsibility to Employees 98

Responsibility to Society and the Environment 99
 Social Auditing 101

International Ethics and Social Responsibility 102

REACHING BEYOND OUR BORDERS ETHICAL CULTURE CLASH 103

Summary 104
Key Terms 105
Career Exploration 105
Critical Thinking 106
Developing Career Skills 106
Putting Principles to Work 106
Video Case: Warby Parker/VisionSpring 107
Notes 107

PART 2

Business Ownership: Starting a Small Business 110

CHAPTER 5

How to Form a Business 110

GETTING TO KNOW PETER CANCRO, FOUNDER OF JERSEY MIKE'S SUBS 111

Basic Forms of Business Ownership 112

Sole Proprietorships 113

Advantages of Sole Proprietorships 113
 Disadvantages of Sole Proprietorships 113

Partnerships 114

Advantages of Partnerships 115
 Disadvantages of Partnerships 116

Corporations 118

Advantages of Corporations 118

MAKING ETHICAL DECISIONS GOOD BUSINESS, BAD KARMA? 118

Disadvantages of Corporations 120
 Individuals Can Incorporate 121

ADAPTING TO CHANGE KICKSTARTING A BENEFIT CORPORATION 121

S Corporations 122
 Limited Liability Companies 123

Corporate Expansion: Mergers and Acquisitions 125

Franchises 126

Advantages of Franchises 127
 Disadvantages of Franchises 128

SPOTLIGHT ON SMALL BUSINESS UNLOCKING A GROWING FRANCHISE 129

Diversity in Franchising 130

Home-Based Franchises 130
 E-Commerce in Franchising 131
 Using Technology in Franchising 131
 Franchising in Global Markets 131

Cooperatives 132

Which Form of Ownership Is for You? 132

Summary 133
Key Terms 135
Career Exploration 135
Critical Thinking 135
Developing Career Skills 136
Putting Principles to Work 136

Video Case: Domino's Still Rolling in the Dough 137

Notes 137

CHAPTER 6

Entrepreneurship and Starting a Small Business 140

GETTING TO KNOW TRISTAN WALKER, FOUNDER OF WALKER AND COMPANY 141

The Job-Creating Power of Entrepreneurs in the United States 142

Why People Take the Entrepreneurial Challenge 143

SPOTLIGHT ON SMALL BUSINESS STUDENT START-UPS 143

What Does It Take to Be an Entrepreneur? 144
 Turning Your Passions and Problems into Opportunities 144
 Entrepreneurial Teams 145
 Entrepreneurship within Firms 145
 Micropreneurs and Home-Based Businesses 146
 Online Businesses 147
 Encouraging Entrepreneurship: What Government Can Do 148

Getting Started in Small Business 150

Small versus Big Business 150
 Importance of Small Businesses 150
 Small-Business Success and Failure 151

Learning About Small-Business Operations 152

Learn from Others 152
 Get Some Experience 152
 Take Over a Successful Firm 153

MAKING ETHICAL DECISIONS SHOULD YOU STAY OR SHOULD YOU GO? 153

Managing a Small Business 154

Planning Your Business 154

Financing Your Small Business	156
Knowing Your Customers	158
Managing Your Employees	158
Keeping Records	159
Looking for Help	159
Going Global: Small-Business Prospects	160
Summary	162
Key Terms	163
Career Exploration	163
Critical Thinking	164
Developing Career Skills	164
Putting Principles to Work	164
Video Case: Launching a Business: JCF Health and Fitness	165
Notes	165

PART 3

Business Management: Empowering Employees to Satisfy Customers 168

CHAPTER 7

Management and Leadership 168

GETTING TO KNOW **KEVIN PLANK, FOUNDER OF UNDER ARMOUR** 169

Managers' Roles Are Evolving 170

The Four Functions of Management 171

Planning and Decision Making 172

ADAPTING TO **CHANGE** **WILL STRATEGY ROBOTS REPLACE MANAGERS?** 175

Decision Making: Finding the Best Alternative 176

Organizing: Creating a Unified System 177

Tasks and Skills at Different Levels of Management 178

Staffing: Getting and Keeping the Right People 179

CONNECTING THROUGH **SOCIAL MEDIA** **WANT TO BE A SOCIAL MEDIA MANAGER?** 179

Leading: Providing Continuous Vision and Values 180

Leadership Styles 181

MAKING **ETHICAL DECISIONS** **WHAT DO YOU TELL THE TEAM?** 181

Empowering Workers 182

Managing Knowledge 183

Controlling: Making Sure It Works 183

A Key Criterion for Measurement: Customer Satisfaction 184

Summary 185

Key Terms 187

Career Exploration 187

Critical Thinking 188

Developing Career Skills 188

Putting Principles to Work 188

Video Case: Zappos's Team Approach 189

Notes 189

CHAPTER 8

Structuring Organizations for Today's Challenges 190

GETTING TO KNOW **DENISE MORRISON, CEO OF CAMPBELL SOUP COMPANY** 191

Organizing for Success 192

Building an Organization from the Bottom Up 192

The Changing Organization 193

MAKING **ETHICAL DECISIONS** **WOULD YOU SACRIFICE SAFETY FOR PROFITS?** 193

The Development of Organizational Design 194

Turning Principles into Organizational Design 195

Decisions to Make in Structuring Organizations 197

Choosing Centralized or Decentralized Authority 197

Choosing the Appropriate Span of Control 197

Choosing between Tall and Flat Organizational Structures 198

Weighing the Advantages and Disadvantages of Departmentalization 198

Organizational Models 201

Line Organizations 201

Line-and-Staff Organizations 202

Matrix-Style Organizations 202

Cross-Functional Self-Managed Teams 204

Going Beyond Organizational Boundaries 204

ADAPTING TO **CHANGE** **GOING BOSSLESS** 204

Managing the Interactions among Firms 205

Transparency and Virtual Organizations 205

Adapting to Change 207

Restructuring for Empowerment 207

CONNECTING THROUGH **SOCIAL MEDIA** **BREAKING THE CONNECTION** 208

Creating a Change-Oriented Organizational Culture 209

Managing the Informal Organization 209

Summary 210

Key Terms 212

Career Exploration 212

Critical Thinking	212
Developing Career Skills	213
Putting Principles to Work	213
Video Case: Freshii's Winning Organization	214
Notes	214

CHAPTER 9

Production and Operations Management 216

**GETTING TO KNOW SHAHID KHAN,
CEO OF FLEX-N-GATE 217**

Manufacturing and Services in Perspective 218

Manufacturers and Service Organizations
Become More Competitive 219

**REACHING BEYOND OUR BORDERS CREATING
SKILLED WORKERS WITH GERMAN-STYLE
APPRENTICESHIPS 219**

From Production to Operations Management 220

Operations Management in the Service Sector 220

Production Processes 221

The Need to Improve Production Techniques and Cut
Costs 222

Computer-Aided Design and Manufacturing 223

Flexible Manufacturing 223

Lean Manufacturing 223

Mass Customization 224

Robotics 224

3D Printing 224

Using Sensing, Measurement, and Process
Control 225

**ADAPTING TO CHANGE THE VAST POSSIBILITIES
OF 3D PRINTING 225**

Operations Management Planning 226

Facility Location 226

Facility Location for Manufacturers 226

Interfirm Operations Management 227

Facility Location in the Future 227

**MAKING ETHICAL DECISIONS SHOULD WE STAY
OR SHOULD WE GO? 227**

Facility Layout 228

Materials Requirement Planning 228

Purchasing 230

Just-in-Time Inventory Control 230

Quality Control 230

The Baldrige Awards 231

ISO 9001 and ISO 14001 Standards 231

Control Procedures: PERT and Gantt Charts 232

Preparing for the Future 232

Summary 234

Key Terms 236

Career Exploration 236

Critical Thinking 237

Developing Career Skills 237

Putting Principles to Work 237

Video Case: Production in the 21st Century 238

Notes 239

PART 4

Management of Human Resources: Motivating Employees to Produce Quality Goods and Services 240

CHAPTER 10

Motivating Employees 240

**GETTING TO KNOW KIM JORDAN,
CEO OF NEW BELGIUM BREWING COMPANY 241**

The Value of Motivation 242

Frederick Taylor: The "Father" of Scientific
Management 243

Elton Mayo and the Hawthorne Studies 244

Motivation and Maslow's Hierarchy of Needs 245

Herzberg's Motivating Factors 246

Mcgregor's Theory X and Theory Y 248

Theory X 248

Theory Y 248

Ouchi's Theory Z 249

Goal-Setting Theory and Management by Objectives 251

Meeting Employee Expectations: Expectancy Theory 251

Treating Employees Fairly: Equity Theory 252

Putting Theory into Action 253

Motivating through Job Enrichment 253

Motivating through Open Communication 253

Applying Open Communication in Self-Managed
Teams 254

Recognizing a Job Well Done 255

**ADAPTING TO CHANGE EMPLOYEE ENGAGEMENT'S
MOOD RING 255**

Personalizing Motivation 256

Motivating Employees across the Globe 256

Motivating Employees across Generations 257

**CONNECTING THROUGH SOCIAL MEDIA THREE
CHEERS FOR PEERS! 258**

Summary	259
Key Terms	262
Career Exploration	262
Critical Thinking	262
Developing Career Skills	263
Putting Principles to Work	263
Video Case: Appletree Answers	263
Notes	264

CHAPTER 11

Human Resource Management: Finding and Keeping the Best Employees 266

GETTING TO KNOW **HAMDİ ULUKAYA, FOUNDER AND CEO OF CHOBANI** 267

Working with People Is Just the Beginning 268

Developing the Ultimate Resource 268

The Human Resource Challenge 269

Laws Affecting Human Resource Management 270

Laws Protecting Employees with Disabilities and Older Employees 272

Effects of Legislation 273

Determining a Firm's Human Resource Needs 273

Recruiting Employees From a Diverse Population 275

CONNECTING THROUGH **SOCIAL MEDIA** **NEED A JOB?** 276

Selecting Employees Who Will Be Productive 277

Hiring Contingent Workers 278

CONNECTING THROUGH **SOCIAL MEDIA** **LET'S FACE IT** 278

Training and Developing Employees for Optimum Performance 280

MAKING **ETHICAL DECISIONS** **INTERN OR INDENTURED SERVANT?** 280

Management Development 282

Networking 282

Diversity in Management Development 283

Appraising Employee Performance to Get Optimum Results 283

Compensating Employees: Attracting and Keeping the Best 284

Pay Systems 285

Compensating Teams 285

Fringe Benefits 286

REACHING BEYOND **OUR BORDERS** **MANAGING A GLOBAL WORKFORCE** 287

Scheduling Employees to Meet Organizational and Employee Needs 288

Flextime Plans 288

Home-Based Work 289

Job-Sharing Plans 290

Moving Employees Up, Over, and Out 291

Promoting and Reassigning Employees 291

Terminating Employees 291

Retiring Employees 291

Losing Valued Employees 292

Summary 293

Key Terms 295

Career Exploration 295

Critical Thinking 295

Developing Career Skills 295

Putting Principles to Work 296

Video Case: Teach for America 296

Notes 297

CHAPTER 12

Dealing with Employee–Management Issues 300

GETTING TO KNOW **LILY ESKELSEN GARCÍA, PRESIDENT OF THE NEA** 301

Employee–Management Issues 302

Labor Unions Yesterday and Today 302

The History of Organized Labor 303

Labor Legislation and Collective Bargaining 304

SPOTLIGHT ON **SMALL BUSINESS** **THE FIRE THAT SPARKED THE LABOR MOVEMENT** 304

Union Organizing Campaigns 305

Objectives of Organized Labor over Time 306

Resolving Labor–Management Disagreements 307

Mediation and Arbitration 308

Tactics Used in Labor–Management Conflicts 309

Union Tactics 309

Management Tactics 310

The Future of Unions and Labor–Management Relations 310

MAKING **ETHICAL DECISIONS** **WALKING A FINE LINE** 311

Controversial Employee–Management Issues 312

Executive Compensation 312

Pay Equity 313

ADAPTING TO **CHANGE** **PAYING FOR UNDERPERFORMING** 314

Sexual Harassment 315

Child Care 315

Elder Care 316

Drug Abuse and Drug Testing	317
Violence and Bullying in the Workplace	318
Summary	319
Key Terms	320
Career Exploration	320
Critical Thinking	321
Developing Career Skills	321
Putting Principles to Work	321
Video Case: Working with Unions at Freeman	322
Notes	322

PART 5

Marketing: Developing and Implementing Customer-Oriented Marketing Plans

CHAPTER 13

Marketing: Helping Buyers Buy 326

GETTING TO KNOW MICHELLE PHAN, FOUNDER OF IPSY 327

What Is Marketing? 328

The Evolution of Marketing 329

CONNECTING THROUGH SOCIAL MEDIA SNAPPING UP A CUSTOMER BASE 330

Nonprofit Organizations and Marketing 331

The Marketing Mix 332

Applying the Marketing Process 332

Designing a Product to Meet Consumer Needs 333

Setting an Appropriate Price 334

Getting the Product to the Right Place 334

Developing an Effective Promotional Strategy 334

Providing Marketers with Information 335

The Marketing Research Process 335

The Marketing Environment 338

Global Factors 338

Technological Factors 338

Sociocultural Factors 339

Competitive Factors 339

SPOTLIGHT ON SMALL BUSINESS CREATING MASS APPEAL FOR A CUSTOM PRODUCT 339

Economic Factors 340

Two Different Markets: Consumer and Business-to-Business (B2B) 340

The Consumer Market 341

Segmenting the Consumer Market 341

Reaching Smaller Market Segments 342

Building Marketing Relationships 343

The Consumer Decision-Making Process 343

ADAPTING TO CHANGE BUILDING RELATIONSHIPS BY BUILDING SUBSCRIBERS 344

The Business-to-Business Market 345

Your Prospects in Marketing 345

Summary 346

Key Terms 348

Career Exploration 348

Critical Thinking 348

Developing Career Skills 349

Putting Principles to Work 349

Video Case: Dunkin' Donuts and the 4 Ps 350

Notes 350

CHAPTER 14

Developing and Pricing Goods and Services 352

GETTING TO KNOW ANTHONY KATZ, FOUNDER OF HYPERICE 353

Product Development and the Total Product Offer 354

CONNECTING THROUGH SOCIAL MEDIA PLAYING WITH THE SOCIAL GAMING STARS 355

Distributed Product Development 356

Product Lines and the Product Mix 356

Product Differentiation 357

Marketing Different Classes of Consumer Goods and Services 358

Marketing Industrial Goods and Services 359

Packaging Changes the Product 360

The Growing Importance of Packaging 361

Branding and Brand Equity 362

MAKING ETHICAL DECISIONS NATURAL GOODS: REALLY FROM NATURE? 362

Brand Categories 363

REACHING BEYOND OUR BORDERS PLAYING THE NAME GAME 363

Generating Brand Equity and Loyalty 364

Creating Brand Associations 364

Brand Management 365

The New-Product Development Process 365

Generating New-Product Ideas 365

Product Screening 366

Product Analysis 366

Product Development and Testing 366

Commercialization 366

The Product Life Cycle 367

Example of the Product Life Cycle 367

SPOTLIGHT ON SMALL BUSINESS MADE BY MOMMY 367

Using the Product Life Cycle 368

Competitive Pricing 370

Pricing Objectives 370

Cost-Based Pricing 370

Demand-Based Pricing 371

Competition-Based Pricing 371

Break-Even Analysis 371

Other Pricing Strategies 371

How Market Forces Affect Pricing 372

Nonprice Competition 372**Summary 373****Key Terms 375****Career Exploration 375****Critical Thinking 375****Developing Career Skills 376****Putting Principles to Work 376****Video Case: Developing New Products at Domino's 376****Notes 377****CHAPTER 15****Distributing Products 380****GETTING TO KNOW TONY MCGEE, PRESIDENT AND CEO OF HNM GLOBAL LOGISTICS 381****The Emergence of Marketing Intermediaries 382**

Why Marketing Needs Intermediaries 383

SPOTLIGHT ON SMALL BUSINESS WHAT WAS MINE IS NOW YOURS 383

How Intermediaries Create Exchange Efficiency 384

The Value versus the Cost of Intermediaries 385

The Utilities Created by Intermediaries 386

Form Utility 387

Time Utility 387

Place Utility 387

CONNECTING THROUGH SOCIAL MEDIA I'M LOVIN' ALL-DAY EGG MCMUFFINS 387

Possession Utility 388

Information Utility 388

Service Utility 388

Wholesale Intermediaries 389

Merchant Wholesalers 389

Agents and Brokers 389

Retail Intermediaries 390

Retail Distribution Strategy 391

Online Retailing and other Nonstore Retailing 391

Online Retailing 391

Telemarketing 392

Vending Machines, Kiosks, Carts, and Pop-Ups 392

Direct Selling 393

Multilevel Marketing 393

Direct Marketing 393

Building Cooperation in Channel Systems 394

Corporate Distribution Systems 394

Contractual Distribution Systems 394

Administered Distribution Systems 394

Supply Chains 395

Logistics: Getting Goods to Consumers Efficiently 396

Trains Are Great for Large Shipments 397

ADAPTING TO CHANGE ONLINE GROCERY SHOPPING 397

Trucks Are Good for Small Shipments to Remote Locations 398

Water Transportation Is Inexpensive but Slow 398

Pipelines Are Fast and Efficient 398

Air Transportation Is Fast but Expensive 399

Intermodal Shipping 399

The Storage Function 400

Tracking Goods 400

What All This Means to Your Career 400**Summary 401****Key Terms 403****Career Exploration 403****Critical Thinking 404****Developing Career Skills 404****Putting Principles to Work 404****Video Case: FedEx 405****Notes 405****CHAPTER 16****Using Effective Promotions 408****GETTING TO KNOW MICHAEL DUBIN, COFOUNDER AND CEO OF DOLLAR SHAVE CLUB 409**

Promotion and the Promotion Mix 410

Advertising: Informing, Persuading, and Reminding 411

Television Advertising 414

CONNECTING THROUGH SOCIAL MEDIA HOW SOCIAL MEDIA MOVE TV RATINGS 414

Product Placement 415
 Infomercials 415
 Online Advertising 415
 Social Media Advertising 416
 Global Advertising 416

Personal Selling: Providing Personal Attention 417

REACHING BEYOND OUR BORDERS OREO: WORLD'S FAVORITE COOKIE? 417

Steps in the Selling Process 418
 The Business-to-Consumer Sales Process 419

Public Relations: Building Relationships 420

Publicity: The Talking Arm of PR 421

Sales Promotion: Giving Buyers Incentives 422

Word of Mouth and Other Promotional Tools 423

Social Networking 424
 Blogging 424
 Podcasting 424
 E-Mail Promotions 425
 Mobile Marketing 425

Managing the Promotion Mix: Putting It all Together 425

Promotional Strategies 426

ADAPTING TO CHANGE OUTDOOR "EYES" ARE PULLING YOU IN 426

Summary 427
 Key Terms 428
 Career Exploration 429
 Critical Thinking 429
 Developing Career Skills 429
 Putting Principles to Work 430
 Video Case: SXSW 430
 Notes 431

PART 6

Managing Financial Resources

CHAPTER 17

Understanding Accounting and Financial Information 434

GETTING TO KNOW SHELLY SUN, CEO OF BRIGHTSTAR CARE 435

The Role of Accounting Information 436

What Is Accounting? 436

The Accounting Cycle 437

Using Technology in Accounting 438

Understanding Key Financial Statements 439

The Fundamental Accounting Equation 439

The Balance Sheet 440

Classifying Assets 440

Liabilities and Owners' Equity Accounts 442

The Income Statement 443

Revenue 443

Cost of Goods Sold 444

SPOTLIGHT ON SMALL BUSINESS OUT WITH THE OLD; IN WITH THE NEW 445

Operating Expenses 445

Net Profit or Loss 446

The Statement of Cash Flows 446

The Need for Cash Flow Analysis 447

MAKING ETHICAL DECISIONS WHEN YOU ARE JUDGE AND JURY! 448

Analyzing Financial Performance Using Ratios 449

Liquidity Ratios 449

Leverage (Debt) Ratios 450

Profitability (Performance) Ratios 450

Activity Ratios 451

Accounting Disciplines 452

Financial Accounting 452

Managerial Accounting 453

Auditing 453

ADAPTING TO CHANGE ACCOUNTING: CSI 454

Tax Accounting 454

Government and Not-for-Profit Accounting 454

REACHING BEYOND OUR BORDERS THE WIDE, WIDE WORLD OF ACCOUNTING 455

Summary 456

Key Terms 457

Career Exploration 458

Critical Thinking 458

Developing Career Skills 458

Putting Principles to Work 459

Video Case: The Accounting Function at Goodwill Industries 459

Notes 460

CHAPTER 18

Financial Management 462

GETTING TO KNOW KATHY WALLER, EXECUTIVE VICE PRESIDENT AND CFO OF COCA-COLA 463

The Role of Finance and Financial Managers 464

The Value of Understanding Finance 465

What Is Financial Management? 466

Financial Planning 466

- Forecasting Financial Needs 466
- Working with the Budget Process 467
- Establishing Financial Controls 468

The Need for Operating Funds 470

- Managing Day-by-Day Needs of the Business 470
- Controlling Credit Operations 470
- Acquiring Needed Inventory 471
- Making Capital Expenditures 471

MAKING ETHICAL DECISIONS NOT WHAT THE DOCTOR ORDERED! 471

- Alternative Sources of Funds 472

Obtaining Short-Term Financing 472

- Trade Credit 473
- Family and Friends 473
- Commercial Banks 473
- Different Forms of Short-Term Loans 474
- Factoring Accounts Receivable 475

ADAPTING TO CHANGE FINANCING JUST A CLICK AWAY 475

- Commercial Paper 476
- Credit Cards 476

Obtaining Long-Term Financing 477

- Debt Financing 477
- Equity Financing 478
- Comparing Debt and Equity Financing 479

SPOTLIGHT ON SMALL BUSINESS LOOKING FOR A SLAM DUNK 480

- Lessons Learned from the Financial Crisis and Great Recession 481
- Summary 482**
- Key Terms 483**
- Career Exploration 483**
- Critical Thinking 483**
- Developing Career Skills 484**
- Putting Principles to Work 484**
- Video Case: Starting Up: Tom and Eddie's 485**
- Notes 485**

CHAPTER 19**Using Securities Markets for Financing and Investing Opportunities 488****GETTING TO KNOW JIM CRAMER, HOST OF CNBC'S MAD MONEY 489**

- The Function of Securities Markets 490
 - The Role of Investment Bankers 491
- Stock Exchanges 491

CONNECTING THROUGH SOCIAL MEDIA JOBS ACT RULES CROWDINVESTING 492

- Securities Regulations and the Securities and Exchange Commission 493
- Foreign Stock Exchanges 494

How Businesses Raise Capital by Selling Stock 495

- Advantages and Disadvantages of Issuing Stock 495
- Issuing Shares of Common Stock 495
- Issuing Shares of Preferred Stock 496

How Businesses Raise Capital by Issuing Bonds 497

- Learning the Language of Bonds 497
- Advantages and Disadvantages of Issuing Bonds 498
- Different Classes of Bonds 498
- Special Bond Features 499

How Investors Buy Securities 499

- Investing through Online Brokers 500

ADAPTING TO CHANGE R2-D2 TO THE INVESTOR'S RESCUE 500

- Choosing the Right Investment Strategy 501

MAKING ETHICAL DECISIONS MONEY GOING UP IN SMOKE 501

- Reducing Risk by Diversifying Investments 502

Investing in Stocks 502

- Stock Splits 503
- Buying Stock on Margin 503
- Understanding Stock Quotations 503

Investing in Bonds 504

- Investing in High-Risk (Junk) Bonds 505

Investing in Mutual Funds and Exchange-Traded Funds 505**Understanding Stock Market Indicators 507**

- Riding the Market's Roller Coaster 508

Summary 511**Key Terms 513****Career Exploration 514****Critical Thinking 514****Developing Career Skills 514****Putting Principles to Work 515****Video Case: Where Did All My Money Go? 515****Notes 516****CHAPTER 20****Money, Financial Institutions, and the Federal Reserve 518****GETTING TO KNOW JANET YELLEN, CHAIR OF THE FEDERAL RESERVE 519**

Why Money Is Important	520
What Is Money?	520
ADAPTING TO CHANGE SAYING GOODBYE TO BEN FRANKLIN	522
Managing Inflation and the Money Supply	523
The Global Exchange of Money	523
Control of the Money Supply	524
Basics about the Federal Reserve	524
The Reserve Requirement	524
Open-Market Operations	525
The Discount Rate	525
The Federal Reserve's Check-Clearing Role	526
The History of Banking and the Need for the Fed	527
Banking and the Great Depression	528
The U.S. Banking System	528
Commercial Banks	529
Services Provided by Commercial Banks	529
Services to Borrowers	529
Savings and Loan Associations (S&Ls)	530
Credit Unions	530
Other Financial Institutions (Nonbanks)	530
MAKING ETHICAL DECISIONS AN OPEN AND SHUT OPTION	530
The Banking Crisis and How the Government Protects Your Money	531
SPOTLIGHT ON SMALL BUSINESS BECOMING YOUR BEST FRIEND IN BANKING	532
Protecting Your Funds	533
The Federal Deposit Insurance Corporation (FDIC)	533
The Savings Association Insurance Fund (SAIF)	533
The National Credit Union Administration (NCUA)	533
Using Technology to Make Banking More Efficient	534
Online Banking	535
International Banking and Banking Services	535
Leaders in International Banking	535
The World Bank and the International Monetary Fund	536
REACHING BEYOND OUR BORDERS NEW DAY, NEW ISSUES ACROSS THE GLOBE	536
Summary	537
Key Terms	539
Career Exploration	539
Critical Thinking	540
Developing Career Skills	540
Putting Principles to Work	540
Video Case: The Financial Crisis	541
Notes	541

Bonus Chapters

A

Working within the Legal Environment 544

GETTING TO KNOW ALANNA RUTHERFORD, ATTORNEY 545

The Case for Laws 546
 Statutory and Common Law 546
 Administrative Agencies 547

Tort Law 548
 Product Liability 548

Legally Protecting Ideas: Patents, Copyrights, and Trademarks 550

Sales Law: The Uniform Commercial Code 551
 Warranties 551
 Negotiable Instruments 552

Contract Law 552
 Breach of Contract 553

Promoting Fair and Competitive Business Practices 553
 The History of Antitrust Legislation 554

Laws to Protect Consumers 555

Tax Laws 556

Bankruptcy Laws 557

Deregulation versus Regulation 560
 Summary 561

Key Terms 563

Career Exploration 563

Critical Thinking 563

Developing Career Skills 564

Putting Principles to Work 564

Notes 564

B

Using Technology to Manage Information 566

GETTING TO KNOW BEN FRIED, CIO OF GOOGLE 567

The Role of Information Technology 568

 Evolution from Data Processing to Business Intelligence 568

 How Information Technology Changes Business 569

Types of Information 571

 Managing Information 572

 Big Data and Data Analytics 573

 Using Information from Social Media 574

The Heart of Knowledge Management: The Internet 574

- Intranets 574
- Extranets 575
- Virtual Private Networks 575
- Broadband Technology 575
- Social Media and Web 2.0 577
- Web 3.0 577
- Who's the "Boss" of the Internet? 579

Virtual Networking and Cloud Computing 580**Effects of Information Technology on Management 581**

- Human Resource Issues 581
- Security Issues 582
- Privacy Issues 584
- Stability Issues 585

TECHNOLOGY AND YOU 585

- Summary 586**
- Key Terms 587**
- Career Exploration 588**
- Critical Thinking 588**
- Developing Career Skills 588**
- Putting Principles to Work 589**
- Notes 589**

C**Managing Risk 592****GETTING TO KNOW OLZA "TONY" NICELY, CEO OF GEICO 593****Understanding Business Risks 594**

- How Rapid Change Affects Risk Management 594

Managing Risk 595

- Reducing Risk 595
- Avoiding Risk 596
- Self-Insuring 596
- Buying Insurance to Cover Risk 596
- What Risks Are Uninsurable? 597
- What Risks Are Insurable? 597

Understanding Insurance Policies 598

- Rule of Indemnity 598
- Types of Insurance Companies 598

Insurance Coverage for Various Kinds of Risk 599

- Health Insurance 599
- Health Savings Accounts 599
- Disability Insurance 601
- Workers' Compensation 601

- Liability Insurance 601
- Life Insurance for Businesses 602
- Insurance Coverage for Home-Based Businesses 602
- The Risk of Damaging the Environment 602
- Protection from Cyber Attacks 602

Summary 603**Key Terms 604****Career Exploration 604****Critical Thinking 604****Developing Career Skills 604****Putting Principles to Work 605****Notes 605****D****Managing Personal Finances 606****GETTING TO KNOW ALEXA VON TOBEL, FOUNDER AND CEO OF LEARNVEST 607****The Need for Personal Financial Planning 608**

- Financial Planning Begins with Making Money 608
- Six Steps to Controlling Your Assets 609

Building Your Financial Base 612

- Real Estate: Historically, a Relatively Secure Investment 612
- Tax Deductions and Home Ownership 614
- Where to Put Your Savings 614
- Learning to Manage Credit 614

Protecting Your Financial Base: Buying Insurance 616

- Health Insurance 617
- Disability Insurance 617
- Homeowner's or Renter's Insurance 618
- Other Insurance 618

Planning Your Retirement 618

- Social Security 618
- Individual Retirement Accounts (IRAs) 619
- Simple IRAs 620
- 401(k) Plans 620
- Keogh Plans 621
- Financial Planners 622
- Estate Planning 622

Summary 623**Key Terms 624****Career Exploration 624****Critical Thinking 624****Developing Career Skills 625**



Putting Principles to Work 625

Notes 625

EPILOGUE

Getting the Job You Want 628

Job Search Strategy 629

Searching for Jobs Online 631

Job Search Resources 632

Writing Your Résumé 633

Putting Your Résumé Online 633

Writing a Cover Letter 635

Preparing for Job Interviews 638

Being Prepared to Change Careers 641

Glossary 642

Name Index 661

Organization Index 669

Subject Index 673



PROLOGUE

Getting Ready for This Course and Your Career

Top 10 Reasons to Read This Introduction *(even if it isn't assigned)*

- 10** What the heck—you already bought the book, so you might as well get your money's worth.
- 9** You don't want the only reason you get a raise to be that the government has increased the minimum wage.
- 8** Getting off to a good start in the course can improve your chances of getting a higher grade, and your Uncle Ernie will send you a dollar for every A you get.
- 7** Your friends say that you've got the manners of a troll and you want to find out what the heck they're talking about.
- 6** How else would you find out a spork isn't usually one of the utensils used at a business dinner?
- 5** You don't want to experience the irony of frantically reading the "time management" section at 3:00 a.m.
- 4** Like the Boy Scouts, you want to be prepared.
- 3** It must be important because the authors spent so much time writing it.
- 2** You want to run with the big dogs someday.

And the number one reason for reading this introductory section is . . .

- 1** It could be on a test.

Learning the Skills You Need to Succeed Today and Tomorrow

Your life is full. You're starting a new semester, perhaps even beginning your college career, and you're feeling pulled in many directions. Why take time to read this introduction? We have lightheartedly offered our top 10 reasons, but the real importance of this section is no joking matter.

Its purpose, and that of the entire text, is to help you learn principles, strategies, and skills for success that will serve you not only in this course but also in your career and your life. Whether you learn them is up to you. Learning them won't guarantee success, but not learning them—well, you get the picture.

This is an exciting and challenging time. Success in any venture comes from understanding basic principles and knowing how to apply them effectively. What you learn now could help you be a success—for the rest of your life. Begin applying these skills now to gain an edge on the competition. **READ THIS SECTION BEFORE YOUR FIRST CLASS** and make a great first impression! Good luck. We wish you the best.

Bill Nickels

Jim McHugh

Susan McHugh



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Using this Course to Prepare for Your Career

Since you’ve signed up for this course, we’re guessing you already know the value of a college education. The holders of bachelor’s degrees make an average of about \$51,000 per year compared to about \$28,000 for high school graduates.¹ That’s 75 percent more for college graduates than those with just a high school diploma. Compounded over the course of a 30-year career, the average college grad will make more than a half-million dollars more than the high school grad! Thus, what you invest in a college education is likely to pay you back many times. See Figure P.1 for more of an idea of how much salary difference a college degree makes by the end of a 30-year career. That doesn’t mean there aren’t good careers available to non-college graduates. It just means those with an education are more likely to have higher earnings over their lifetime.

The value of a college education is more than just a larger paycheck. Other benefits include increasing your ability to think critically and communicate your ideas to others, improving your ability to use technology, and preparing yourself to live in a diverse and competitive world. Knowing you’ve met your goals and earned a college degree also gives you the self-confidence to work toward future goals.

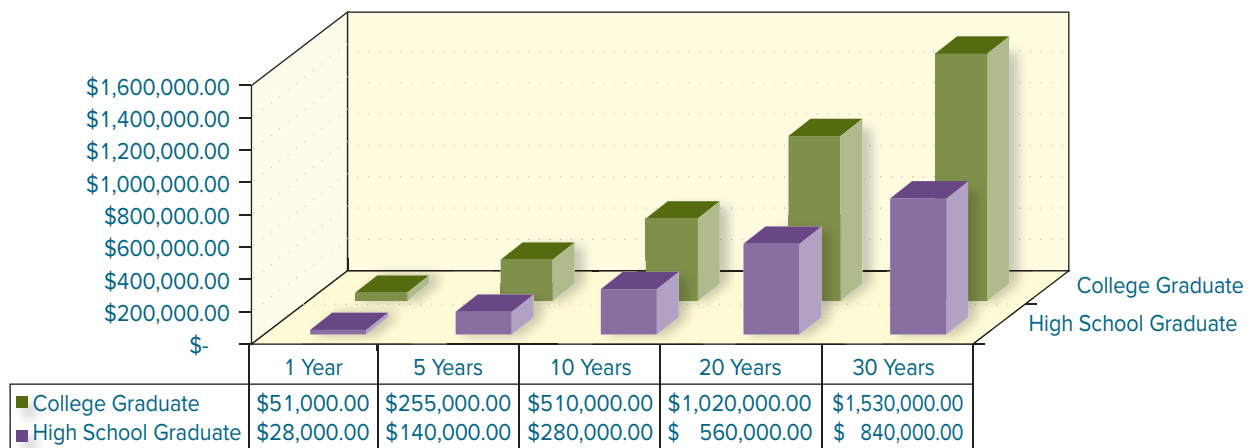
Many college graduates in the last generation held seven or eight different jobs (often in several different careers) in their lifetime. Today, Millennials are changing jobs just as rapidly; most jump jobs four times in the first decade after graduation.² Many returning students are changing their careers and their plans for life. In fact, more than half of all part-time college students are older than 25.³

You too may want to change careers someday. It can be the path to long-term happiness and success. That means you’ll have to be flexible and adjust your strengths and talents to new opportunities. Today companies are looking for skills that machines lack, including creativity, interpersonal skills, and fine motor control. Learning has become a lifelong job. It’s not going to be just what you know now that counts, but what you learn in the future and how you adapt your skills to add value to yourself, your job, and your company.⁴

If you’re typical of many college students, you may not have any idea what career you’d like to pursue. That isn’t necessarily a big disadvantage in today’s fast-changing job market. After all, many of the best jobs of the future don’t even exist today. Figure P.2 lists 10 careers that didn’t exist 10 years ago. There are no perfect or certain ways to prepare for the most interesting and challenging jobs of tomorrow. Rather, you should continue your college education, develop strong technology skills, improve your verbal and written communication skills, and remain flexible and forward thinking while you explore the job market.

The rewards of college are well worth the effort for graduates, who can expect to earn over 75 percent more than high school graduates over the course of their careers. Businesses like graduates too, because the growing needs of a global workplace require knowledgeable workers to fill the jobs of the future. What other benefits do you see from earning a college degree?

FIGURE P.1 SALARY COMPARISON OF HIGH SCHOOL VERSUS COLLEGE GRADUATES



THESE CAREERS DIDN'T EXIST 10 YEARS AGO:	
• App Developer	• Big Data Analyst/Data Scientist
• Social Media Manager	• Sustainability Manager
• Uber Driver	• YouTube Content Creator
• Driverless Car Engineer	• Drone Operator
• Cloud Computing Specialist	• Millennial Generational Expert

Source: World Economic Forum, weforum.org, accessed December 2016.

FIGURE P.2 NEW CAREERS

One of the objectives of this class, and this book, is to help you choose an area in which you might enjoy working and have a good chance to succeed. You'll learn about economics, global business, ethics, entrepreneurship, management, marketing, accounting, finance, and more. At the end of the course, you should have a much better idea which careers would be best for you and which you would not enjoy.

But you don't have to be in business to use business principles. You can use marketing principles to get a job and to sell your ideas to others. You can use your knowledge of investments to make money in the stock market. You'll use your management skills and general business knowledge wherever you go and in whatever career you pursue—including government agencies, charities, and social causes.

Assessing Your Skills and Personality

The earlier you can do a personal assessment of your interests, skills, and values, the better it can help you find career direction. Hundreds of schools use software exercises like the System for Interactive Guidance and Information (SIGI) and DISCOVER to offer self-assessment exercises, personalized lists of occupations based on your interests and skills, and information about different careers and the preparation each requires. Visit your college's placement center, career lab, or library soon and learn what programs are available for you. Of course, there are career assessment tools online, but many are as accurate as a Magic 8 ball. You can find reviews of online assessments at www.livecareer.com/quintessential/online-assessment-review. While no test can give you a definitive answer about what the perfect career for you is, the assessments can point you to career paths that you may not have considered before.

Self-assessment will help you determine the kind of work environment you'd prefer (technical, social service, or business); what values you seek to fulfill in a career (security, variety, or independence); what abilities you have (creative/artistic, numerical, or sales); and what job characteristics matter to you (income, travel, or amount of job pressure versus free time).

Using Professional Business Strategies Right Now

Here are two secrets to success you can start practicing now: *networking* and *keeping files on subjects important to you*.

Networking is building a personal array of people you've met, spoken to, or corresponded with who can offer you advice about and even help with your career options.⁵ Start with the names of your professors, both as employment references and as resources about fields of interest to you. Add additional contacts, mentors, and resource people, and keep the notes you make when talking with them about careers including salary information and courses you need to take.



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Networking provides you with an array of personal contacts on whom you can call for career advice and help. Have you begun creating your network yet? Are you part of someone else's?

All students need a way to retain what they learn. An effective way to become an expert on almost any business subject is to set up your own information system. You can store data on your computer, tablet, and cell phone (back up these files!), or you can establish a comprehensive filing system on paper, or you can use a combination of the two. Few college students take the time to make this effort; those who don't lose much of the information they read in college or thereafter.

Keep as many of your textbooks and other assigned readings as you can, as well as your course notes. Read a national newspaper such as *The Wall Street Journal*, *The New York Times*, or *USA Today*. Read your local newspaper. Each time you read a story that interests you, save a paper copy or add a link to the story online in your electronic file, under a topic heading like *careers*, *small business*, *marketing*, *economics*, or *management*. Don't rely on just one

Internet site for information (and be wary of Wikipedia)! Get familiar with a variety of sources and use them.

Start a file for your résumé. In it, keep a copy of your current résumé along with reference letters and other information about jobs you may have held, including projects accomplished and additions to your responsibilities over time, plus any awards or special recognition you may have received. Soon you'll have a tremendous amount of information to help you prepare a polished résumé and answer challenging job interview questions with ease.

Watching television shows about business, such as *Nightly Business Report* and Jim Cramer's *Mad Money*, helps you learn the language of business and become more informed about current happenings in business and the economy. Try viewing some of these shows or listening to similar ones online, and see which ones you like best. Take notes and put them in your files. Keep up with business news in your area so that you know what jobs are available and where. You may also want to join a local business group to begin networking with people and learning the secrets of the local business scene. Many business groups and professional business societies accept student members.

Learning to Behave Like a Professional

There's a reason good manners never go out of style. As the world becomes increasingly competitive, the gold goes to teams and individuals with that extra bit of polish. The person who makes a good impression will be the one who gets the job, wins the promotion, or clinches the deal. Good manners and professionalism are not difficult to acquire; they're second nature to those who achieve and maintain a competitive edge.

Not even a great résumé or designer suit can substitute for poor behavior, including verbal behavior, in an interview. Say "please" and "thank you" when you ask for something. Certainly make it a point to arrive on time, open doors for others, stand when an older person enters the room, and use a polite tone of voice. You may want to take a class in etiquette or read a book on etiquette to learn the proper way to eat in a nice restaurant, what to do at a formal party, when and how to text/e-mail business associates properly, and so on. Of course, it's also critical to be honest, reliable, dependable, and ethical at all times.

Some rules are not formally written anywhere; instead, every successful businessperson learns them through experience. If you follow these rules in college, you'll have the skills for success when you start your career. Here are the basics:

1. **Making a good first impression.** An old saying goes, "You never get a second chance to make a good first impression." You have just a few seconds to make an impression. Therefore, how you dress and how you look are important. Take your

cue as to what is appropriate at any specific company by studying the people there who are most successful. What do they wear? How do they act?

2. **Focusing on good grooming.** Be aware of your appearance and its impact. Wear appropriate, clean clothing and a few simple accessories. Revealing shirts, nose rings, and tattoos may not be appropriate in a work setting. Be consistent, too; you can't project a good image by dressing well a few times a week and then showing up looking like you're getting ready to mow a lawn.

Many organizations have adopted "business casual" guidelines, but others still require traditional attire, so find out what the organization's policies are and choose your wardrobe accordingly. Casual doesn't mean sloppy or shabby. Wrinkled clothing, shirttails hanging out, and hats worn indoors are not usually appropriate. For women, business casual attire includes simple skirts and slacks (no jeans), cotton shirts, sweaters (not too tight), blazers, and low-heeled shoes or boots. Men may wear khaki trousers, sport shirts with collars, sweaters or sport jackets, and casual loafers or lace-up shoes.

3. **Being on time.** When you don't come to class or work on time, you're sending this message to your teacher or boss: "My time is more important than your time. I have more important things to do than be here." In addition to showing a lack of respect to your teacher or boss, lateness rudely disrupts the work of your colleagues.

Pay attention to the corporate culture. Sometimes you have to come in earlier than others and leave later to get that promotion you desire. To develop good work habits and get good grades, arrive in class on time and avoid leaving (or packing up to leave) early.

4. **Practicing considerate behavior.** Listen when others are talking—for example, don't check your cell phone for messages, read the newspaper, or eat in class. Don't interrupt others when they are speaking; wait your turn. Eliminate profanity from your vocabulary. Use appropriate body language by sitting up attentively and not slouching. Sitting up has the added bonus of helping you stay awake! Professors and managers alike get a favorable impression from those who look and act alert.
5. **Practicing good text/e-mail etiquette.** The basic rules of courtesy in face-to-face communication also apply to text and e-mail exchanges. Introduce yourself at the beginning of your first e-mail message. Next, let your recipients know how you got their names and e-mail addresses. Then proceed with your clear but succinct message, and always be sure to type full words (*ur* is not the same thing as *your*). Finally, close the e-mail with a signature. Do not send an attachment unless your correspondent has indicated he or she will accept it. Ask first! You can find much more information about proper Internet etiquette, or netiquette, online—for example, at NetManners.com.
6. **Practicing good cell phone manners.** Your Introduction to Business class is not the place to be arranging a date for tonight. Turn off the phone during class or in a business meeting unless you are expecting a critical call. If you are expecting such a call, let your professor know before class. Turn off your ringer and put the phone on vibrate. Sit by the aisle and near the door. If you do receive a critical call, leave the room before answering it. Apologize to the professor after class and explain the situation.
7. **Practicing safe posting on social media.** Be careful what you post on your Facebook page or any other social media. Although it may be fun to share your latest adventures with your friends, your boss or future boss may not appreciate your latest party pictures. Be aware that those pictures may not go away even if you delete them from your page. If anyone else downloaded them, they are still out there waiting for a recruiter to discover. Make sure to update your privacy settings frequently. It's a good idea to separate your list of work friends and limit what that group can view. Also be aware that some work colleagues aren't interested in becoming your Facebook friends. To avoid awkwardness, wait for work associates to reach out to



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Many businesses have adopted business casual as the proper work attire, but others still require traditional clothing styles. How does your appearance at work affect both you and your company?



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Behavior that's taken for granted in other countries might be unusual in the United States. In some cultures bowing is a form of greeting to show respect. How can you learn the appropriate business etiquette for the countries in which you do business?

you first. Make sure you know your employer's policy on using social media on company time. Obviously, they will probably frown on using it for personal use on company time, but there may be rules about sharing technical matter, company information, and so on. Be mindful that social media accounts time-stamp your comments.

8. **Being prepared.** A businessperson would never show up for a meeting without having read the appropriate materials and being prepared to discuss the topics on the agenda. For students, acting like a professional means reading assigned materials before class, having written assignments ready to be turned in, asking and responding to questions in class, and discussing the material with fellow students.
9. **Learning local customs.** Just as traffic laws enable people to drive more safely, business etiquette allows people to conduct business with the appropriate amount of consideration. Sharpen your competitive edge by becoming familiar with its rules. If you travel internationally, learn the proper business etiquette for each country you visit.⁶ Customs differ widely for such everyday activities as greeting people, eating, giving gifts, presenting and receiving business cards, and conducting business in general. In Japan, businesspeople typically bow instead of shaking hands, and in some Arab countries it is insulting to sit so as to show the soles of your shoes. Honesty, high ethical standards, and reliability and trustworthiness are important for success in any country.
10. **Behaving ethically.** Having a reputation for integrity will enable you to be proud of who you are and contribute a great deal to your business success. Unethical behavior can ruin your reputation; so think carefully before you act. When in doubt, don't! Ethics is so important to success that we include discussions about it throughout the text.

Doing Your Best in College

The skills you need to succeed in life after college are the same ones that will serve you well in your studies. Career, family, and hobbies all benefit from organizational and time management skills you can apply right now. Here are some tips for improving your study habits, taking tests, and managing your time.

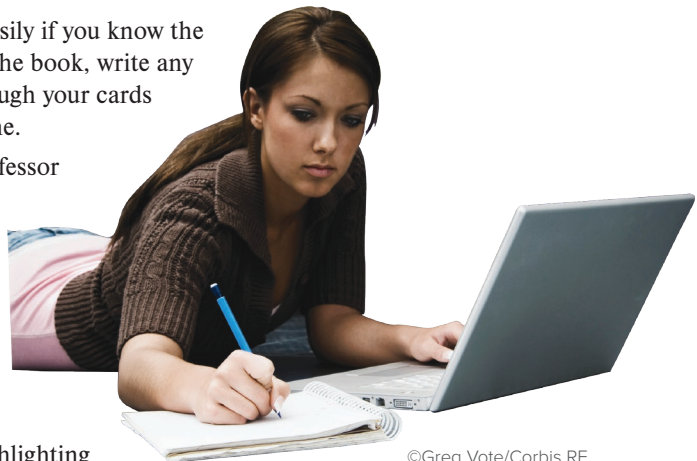
Study Hints

For the remainder of your college career, consider studying to be your business. Though you may hold another job while enrolled in this class, you're in school because you want to advance yourself. So until you get out of school and into your desired occupation, studying is your business. And like any good businessperson, you aim for success. Follow these strategies:

1. **Go to class.** It's tempting to cut a class on a nice day or when there are other things to do. But nothing is more important to doing well in school than going to class every time. If possible, sit in the front near the instructor. This will help you focus better and avoid distractions in the room.
2. **Listen well.** It's not enough to show up for class if you use the time for a nap. Make eye contact with the instructor. In your mind, form a picture of what he or she is discussing. Include your existing knowledge and past experiences in your picture. This ties new knowledge to what you already know.

3. **Take careful notes.** Make two columns in your notebook, laptop, or tablet. On one side write down important concepts, and on the other examples or more detailed explanations. Use abbreviations and symbols whenever possible and wide spacing to make the notes easier to read. Edit your notes after class to make sure you fully understand what was discussed in class. Rereading and rewriting help store the information in your long-term memory. Learn the concepts in your courses the same way you learn the words to your favorite song: through repetition and review.
4. **Find a good place to study.** Find a place with good lighting and a quiet atmosphere. Some students do well with classical music or other music without lyrics playing in the background. Keep your study place equipped with extra supplies such as mobile devices, pens, pencils, calculator, folders, and paper so you don't have to interrupt studying to hunt for them.
5. **Read the text using a strategy such as “survey, question, read, recite, review” (SQ3R).**
 - a. *Survey* or scan the chapter first to see what it is all about. This means looking over the table of contents, learning objectives, headings, photo essays, and charts so you get a broad idea of the content. The summaries at the end of each chapter in this text provide a great overview of the concepts in the chapter. Scanning will provide an introduction and help get your mind in a learning mode.
 - b. Write *questions*, first by changing the headings into questions. For example, you could change the heading of this section to “What hints can I use to study better?” Read the questions that appear throughout each chapter in the Test Prep sections to give yourself a chance to recall what you've read.
 - c. *Read* the chapter to find the answers to your questions. Be sure to read the boxes in the chapter as well. They offer extended examples or discussions of the concepts in the text. You've probably asked, “Will the material in the boxes be on the tests?” Even if your instructor chooses not to test over them directly, they are often the most interesting parts of the chapter and will help you retain the chapter concepts better.
 - d. *Recite* your answers to yourself or to others in a study group. Make sure you say the answers in your own words so that you clearly understand the concepts. Research has shown that saying things is a more effective way to learn them than seeing, hearing, or reading about them. While often used in study groups, recitation is also good practice for working in teams in the work world.
 - e. *Review* by rereading and recapping the information. The chapter summaries are written in a question-and-answer form, much like a classroom dialogue. They're also tied directly to the learning objectives so that you can see whether you've accomplished the chapter's objectives. Cover the written answers and see whether you can answer the questions yourself first.
6. **Use flash cards.** You'll master the course more easily if you know the language of business. To review the key terms in the book, write any terms you don't know on index cards and go through your cards between classes and when you have other free time.
7. **Use Connect Introduction to Business** (if your professor has recommended it for your course). Connect's online features include interactive presentations, LearnSmart (adaptive learning technology that identifies what you know and don't know, and personalizes your learning experience, ensuring that every minute spent studying with LearnSmart is the most efficient and productive study time possible), SmartBook (creates a personalized reading experience by highlighting

The SQ3R study system recommends that you “survey, question, read, recite, and review” to stay up-to-date with assignments and shine in class every day. Have you adopted this system?



the most impactful concepts you need to learn at that moment in time), and interactive applications.

8. **Go over old exams, if possible.** If old exams are not available from your professor, ask how many multiple-choice, true/false, and essay questions will be on your test. It's acceptable to ask your professor's former students what kind of questions are given and what material is usually emphasized. It is unethical, though, to go over exams you obtain illegally.
9. **Use as many of your senses in learning as possible.** If you're an auditory learner—that is, if you learn best by hearing—record yourself reading your notes and answering the questions you've written. Listen to the tape while you're dressing in the morning. You can also benefit from reading or studying aloud. If you're a visual learner, use pictures, charts, colors, and graphs. Your professor has a set of videos that illustrate the concepts in this text. If you're a kinesthetic learner, you remember best by doing, touching, and experiencing. Doing the Developing Career Skills exercises at the end of each chapter will be a big help.

Test-Taking Hints

Often students will say, "I know this stuff, but I'm just not good at taking multiple-choice (or essay) tests." Other students find test taking relatively easy. Here are a few test-taking hints:

1. **Get plenty of sleep and have a good meal.** It's better to be alert and awake during an exam than to study all night and be groggy. If you keep up with your reading and your reviews on a regular basis, you won't need to pull an all-nighter. Proper nutrition also plays an important part in your brain's ability to function.
2. **Bring all you need for the exam.** Sometimes you'll need No. 2 pencils, erasers, and a calculator. Ask beforehand.
3. **Relax.** At home before the test, take deep, slow breaths. Picture yourself in the testing session, relaxed and confident. Reread the chapter summaries. Get to class early to settle down. If you start to get nervous during the test, stop and take a few deep breaths. Turn the test over and write down information you remember. Sometimes this helps you connect the information you know to the questions on the test.
4. **Read the directions on the exam carefully.** You don't want to miss anything or do something you're not supposed to do.
5. **Read all the answers in multiple-choice questions.** Even if there is more than one correct-sounding answer to a multiple-choice question, one is clearly better. Read them all to be sure you pick the best. Try covering up the choices while reading the question. If the answer you think of is one of the choices, it is probably correct. If you are still unsure of the answer, start eliminating options you know are wrong. Narrowing the choices to two or three improves your odds.
6. **Answer all the questions.** Unless your instructor takes off more for an incorrect answer than for no answer, you have nothing to lose by guessing. Also, skipping a question can lead to inadvertently misaligning your answers on a scan sheet. You could end up with all your subsequent answers scored wrong!
7. **Read true/false questions carefully.** All parts of the statement must be true or else the entire statement is false. Watch out for absolutes such as *never*, *always*, and *none*. These often make a statement false.
8. **Organize your thoughts before answering essay questions.** Think about the sequence in which to present what you want to say. Use complete sentences with correct grammar and punctuation. Explain or defend your answers.
9. **Go over the test at the end.** Make sure you've answered all the questions, put your name on the exam, and followed all directions.



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Keeping a daily schedule is only one of the many strategies that will help you manage your time. You should also keep a running list of goals and things you need to do each week. In what other ways can you defend your study time?

Time Management Hints

The most important management skill you can learn is how to manage your time. Now is as good an opportunity to practice as any. Here are some hints other students have learned—often the hard way:

1. **Write weekly goals for yourself.** Make certain your goals are realistic and attainable. Write the steps you'll use to achieve each goal. Reward yourself when you reach a goal.
2. **Keep a “to do” list.** It's easy to forget things unless you write them down. Jot down tasks as soon as you know of them. That gives you one less thing to do: remembering what you have to do.
3. **Prepare a daily schedule.** Use a commercial printed or electronic daily planner or create your own. Write the days of the week across the top of the page. Write the hours of the day from the time you get up until the time you go to bed down the left side. Draw lines to form columns and rows and fill in all the activities you have planned in each hour. Hopefully, you will be surprised to see how many slots of time you have available for studying.
4. **Prepare for the next day the night before.** Having everything ready to go will help you make a quick, stress-free start in the morning.
5. **Prepare weekly and monthly schedules.** Use a calendar to fill in activities and upcoming assignments. Include both academic and social activities so that you can balance your work and fun.
6. **Space out your work.** Don't wait until the last week of the course to write all your papers and study for your exams. If you do a few pages a day, you can write a 20-page paper in a couple of weeks with little effort. It is really difficult to push out 20 pages in a day or two.
7. **Defend your study time.** Study every day. Use the time between classes to go over your flash cards and read the next day's assignments. Make it a habit to defend your study time so you don't slip.
8. **Take time for fun.** If you have some fun every day, life will be full. Schedule your fun times along with your studying so that you have balance.

“Time is money,” the saying goes. Some, however, would argue that time is more valuable than money. If your bank account balance falls, you might be able to build it back up by finding a better-paying job, taking a second job, or even selling something you own. But you have only a limited amount of time and there is no way to make more. Learn to manage your time well, because you can never get it back.

Making the Most of the Resources for This Course

College courses and textbooks are best at teaching you concepts and ways of thinking about business. However, to learn firsthand how to apply those ideas to real business situations, you need to explore and interact with other resources. Here are seven basic resources for the class in addition to the text:

Your college professors are among the most valuable resources and contacts you'll encounter as you develop your career path. How many of your professors have you gotten to know so far?

1. **The professor.** One of the most valuable facets of college is the chance to study with experienced professors. Your instructor is a resource who's there to answer some questions and guide you to answers for others. Many professors get job leads they can pass on to you and can provide letters of recommendation too. Thus it's important to develop a friendly relationship with your professors.
2. **The supplements that come with this text.** Connect Introduction to Business online course material (if your professor has recommended it for your course) will help you review and interpret key material and give you practice answering test questions. Even if your professor does not assign these materials, you may want to use them anyhow. Doing so will improve your test scores and help you compete successfully with the other students.
3. **Outside readings.** One secret to success in business is staying current. Review and become familiar with the following magazines and newspapers during the course and throughout your career: *The Wall Street Journal*, *Forbes*, *Barron's*, *Bloomberg Businessweek*, *Fortune*, *Money*, *The Economist*, *Hispanic Business*, *Harvard Business Review*, *Black Enterprise*, *Fast Company*, *Inc.*, and *Entrepreneur*. You may also want to read your local newspaper's business section and national news magazines such as *Time* and *Newsweek*. You can find them in your school's learning resource center or the local public library. Some are also available online free.
4. **Your own experience and that of your classmates.** Many college students have had experience working in business or nonprofit organizations. Hearing and talking about those experiences exposes you to many real-life examples that are invaluable for understanding business. Don't rely exclusively on the professor for all the answers and other exercises in this book. Often there is no single “right” answer, and your classmates may open up new ways of looking at things for you.

Part of being a successful businessperson is learning how to work with others. Some professors encourage their students to work together and build teamwork as well as presentation and analytical skills. Students from other countries can help you learn about different cultures and different approaches to handling business problems. There is strength in diversity, so seek out people different from you to work with on teams.
5. **Outside contacts.** Who can tell you more about what it's like to start a career in accounting than someone who's doing it now? One of the best ways to learn about different businesses is to visit them in person. The world can be your classroom.



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When you go shopping, think about whether you would enjoy working in and managing a store. Think about owning or managing a restaurant, an auto body shop, a health club, or any other establishment you visit. If something looks interesting, talk to the employees and learn more about their jobs and the industry. Be constantly on the alert to find career possibilities, and don't hesitate to talk with people about their careers. Many will be pleased to give you their time and honest opinions.

6. **The Internet.** The Internet offers more material than you could use in a lifetime. Throughout this text we present information and exercises that require you to use the Internet. Information changes rapidly, and it is up to you to stay current.
7. **The library or learning resource center.** The library is a great complement to the Internet and a valuable resource. Work with your librarian to learn how to best access the information you need.

Getting the Most from This Text

Many learning aids appear throughout this text to help you understand the concepts:

1. **List of Learning Objectives at the beginning of each chapter.** Reading through these objectives will help you set the framework and focus for the chapter material. Since every student at one time or other has found it difficult to get into studying, the Learning Objectives are there to provide an introduction and to get your mind into a learning mode.
2. **Getting to Know and Name That Company features.** The opening stories will help you *get to know* professionals who successfully use the concepts presented in the chapters. The Name That Company feature at the beginning of each chapter challenges you to identify a company discussed in the chapter.
3. **Photo essays.** The photos offer examples of the concepts in the chapter. Looking at the photos and reading the photo essays (captions) before you read the chapter will give you a good idea of what the chapter is all about.
4. **Self-test questions.** Periodically, within each chapter, you'll encounter set-off lists of questions called Test Prep. These questions give you a chance to pause, think carefully about, and recall what you've just read.
5. **Key terms.** Developing a strong business vocabulary is one of the most important and useful aspects of this course. To assist you, all key terms in the book are highlighted in boldface type. Key terms are also defined in the margins, and page references to these terms are given at the end of each chapter. A full glossary is located in the back of the book. You should rely heavily on these learning aids in adding new terms to your vocabulary.
6. **Boxes.** Each chapter contains a number of boxed extended examples or discussions that cover major themes of the book: (a) ethics (Making Ethical Decisions); (b) small business (Spotlight on Small Business); (c) global business (Reaching Beyond Our Borders); (d) social media (Connecting through Social Media); and (e) contemporary business issues (Adapting to Change). They're interesting to read and provide key insights into important business issues; we hope you enjoy and learn from them.
7. **End-of-chapter summaries.** The chapter summaries are directly tied to the chapter Learning Objectives so that you can see whether you've accomplished the chapter's objectives.
8. **Career Exploration exercise.** At the end of each chapter, we offer a brief list of potential careers that deal with the concepts present in the chapter and encourage you to find out more about them in the Occupational Outlook Handbook.

9. **Critical Thinking questions.** The end-of-chapter questions help you relate the material to your own experiences.
10. **Developing Career Skills exercises.** To really remember something, it's best to do it. That's why Developing Career Skills sections at the end of each chapter suggest small projects that help you use resources, develop interpersonal skills, manage information, understand systems, and sharpen technology skills.
11. **Putting Principles to Work exercises.** These exercises direct you to dynamic outside resources that reinforce the concepts introduced in the text. You might want to bookmark some of the websites you'll discover.
12. **Video cases.** These cases feature companies, processes, practices, and managers that bring to life the key concepts in the chapter and give you real-world information to think over and discuss.

If you use the suggestions we've presented here, you'll actively participate in a learning experience that will help you greatly in this course and your chosen career. The most important secret to success may be to enjoy what you're doing and do your best in everything. To do your best, take advantage of all the learning aids available to you.

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1

Taking Risks and Making Profits within the Dynamic Business Environment

LEARNING OBJECTIVES »

After you have read and studied this chapter, you should be able to

- LO 1-1** Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.
- LO 1-2** Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.
- LO 1-3** Analyze the effects of the economic environment and taxes on businesses.
- LO 1-4** Describe the effects of technology on businesses.
- LO 1-5** Demonstrate how businesses can meet and beat competition.
- LO 1-6** Analyze the social changes affecting businesses.
- LO 1-7** Identify what businesses must do to meet global challenges, including war and terrorism.
- LO 1-8** Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.

GETTING TO KNOW

Ann-Marie Campbell of Home Depot

Starting a new job isn't easy. With many things to learn and people to meet, even experienced workers can get overwhelmed on their first day at work on a new job. So imagine how Ann-Marie Campbell must have felt more than 30 years ago, when as a new immigrant with a thick Jamaican accent, she walked into Home Depot for her first shift. But thanks to her hard work and committed attitude, Campbell rose up the ranks at Home Depot. Now as executive vice president of stores, she oversees the operation of more than 2,000 locations.

Campbell was born in the Jamaican capital of Kingston to a successful couple with four children. But this happy childhood took a tragic turn when her father died in a car accident. Campbell and her siblings spent the rest of their youth being raised mainly by their grandmother, an intensely driven woman with no fear of hard work. "My grandmother was divorced and she had 10 children herself," said Campbell. "She started selling lace on the side of the road and then grew that into a multimillion-dollar business—a retail store selling mostly furniture and appliances."

This store became Campbell's second home when she had time off from the strict boarding school she attended. Helping her grandmother with day-to-day duties taught her many important lessons about how to do business. Her grandmother's advice and the discipline she learned at school helped Campbell enormously when she made the move to Miami as a teenager and got a job as a part-time sales associate at Home Depot to help pay her college tuition. While Campbell's experience and dedication helped her excel at the job quickly, she still faced a number of challenges in this new environment. "I was really the only woman on the sales floor back then, and when customers would come in with an issue, they'd demand to speak to, you know, a guy," said Campbell. Rather than lose her temper, though, she developed a clever response to this demand. "I'd pick the guy who knew the least to come help. The man would always have to kick the question back to me."

A similarly bold move brought Campbell to the attention of Home Depot's upper management. One day, a company executive visited the store and asked a big group of employees a question. None of her co-workers responded, but Campbell confidently answered the executive's inquiry. "Later, when he was walking out of the store, he asked the manager who I was," said Campbell. "That's how I got on the radar." This boost gave her the confidence and the connections to pursue promotions within the company. Her first advanced post was as head of the paint department, followed eventually by her appointment as manager of the entire store.

Campbell earned a Master of Business Administration in 2005 that allowed her

to climb even higher up the corporate ladder. By 2016 she became executive vice president of U.S. stores, a position that places her in charge of Home Depot's more than 400,000 employees. Every day Campbell works to provide these employees with the same opportunities for advancement that she received, which is a duty she does not take lightly. "It's only when you develop others that you permanently succeed," said Campbell. "When I do have opportunities to speak to students, or even to my kids, that's the type of value that I instill in them. It's not just about you. The world is a community. Everyone has their part, so let's go out and make sure everyone is able to do it successfully."

The business environment is constantly changing, and along with those changes come opportunities. The purpose of this chapter, and this textbook, is to introduce you to the dynamic world of business and to some of the people who thrive in it. Businesspeople like Ann-Marie Campbell contribute much to the communities they serve, and they also make a good living doing so. That's what business is all about.

Sources: Doug Gillett, "Ann-Marie Campbell's American Dream," *Georgia State University Magazine*, accessed September 2017; Ellen McGirt, "How Home Depot's Ann-Marie Campbell Rose from Cashier to the C-Suite," *Fortune*, September 13, 2016; Henry Unger, "If You Have a Seat at the Table, Speak Up," *Atlanta Journal Constitution*, March 26, 2015; Paul Ziobro, "Home Depot Replaces Head of U.S. Stores Business," *The Wall Street Journal*, January 19, 2016; Boardroom Insiders, "Ann-Marie Campbell," accessed September 2017.



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EVEN THOUGH THIS COMPANY had not been hacked itself, in 2017 it reported that some customer accounts were breached when the customers secured their accounts with the same passwords they used on other sites that were hacked. Name that company. (You will find the answer in this chapter.)

LO 1-1

Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Business and Wealth Building

business

Any activity that seeks to provide goods and services to others while operating at a profit.

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.

entrepreneur

A person who risks time and money to start and manage a business.

revenue

The total amount of money a business takes in during a given period by selling goods and services.

profit

The amount of money a business earns above and beyond what it spends for salaries and other expenses.

loss

When a business's expenses are more than its revenues.

Success in business is based on constantly adapting to changes in the market. A **business** is any activity that seeks to provide goods and services to others while operating at a profit. To earn that profit, you provide desired goods, jobs, and services to people or other businesses. **Goods** are *tangible* products such as computers, food, clothing, cars, and appliances. **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. Once you have developed the right goods and services, based on consumer wants and needs, you need to reach those consumers using whatever media they prefer, including TV, social media, online advertising, and more.

Although you don't need to have wealth as a primary goal, one result of successfully filling a market need is that you can make money for yourself, sometimes a great deal, by giving customers what they want. Sam Walton of Walmart began by opening one store in Arkansas and, over time, became one of the richest people in the United States. Now his heirs are some of the richest people in the United States.¹

There are over 13.5 million millionaires in the United States.² Maybe you will be one of them someday if you start your own business. An **entrepreneur** is a person who risks time and money to start and manage a business.

Revenues, Profits, and Losses

Revenue is the total amount of money a business takes in during a given period by selling goods and services. **Profit** is the amount of money a business earns above and beyond what it spends for salaries and other expenses needed to run the operation. A **loss** occurs when a business's expenses are more than its revenues. If a business loses money over time, it will likely have to close, putting its employees out of work. Over 175,000 businesses in the United States close each year.³

As noted, the business environment is constantly changing. What seems like a great opportunity one day may become a huge failure when the economy changes. Starting a business may thus come with huge risks. But huge risks often result in huge profits. We'll explore that concept next.

Matching Risk with Profit

Risk is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable. Profit, remember, is the amount of money a business earns *above and beyond* what it pays out for salaries and other expenses. For example, if you were to start

a business selling hot dogs from a cart in the summer, you would have to pay for the cart rental. You would also have to pay for the hot dogs and other materials, and for someone to run the cart while you were away. After you paid your employee and yourself, paid for the food and materials you used, paid the rent on the cart, and paid your taxes, any money left over would be profit.

Keep in mind that profit is over and above the money you pay yourself in salary. You could use any profit to rent or buy a second cart and hire other employees. After a few summers, you might have a dozen carts employing dozens of workers.

Not all enterprises make the same amount of profit. Usually those who take the most risk may make the most profit. There is high risk, for example, in making a new kind of automobile. It's also risky to open a business in an inner city, because insurance and rent are usually higher than in suburban areas, but reduced competition makes substantial profit possible. Big risk can mean big profits.

Standard of Living and Quality of Life

Entrepreneurs such as Sam Walton (Walmart), Bill Gates (Microsoft), Jeff Bezos (Amazon), and Sara Blakely (Spanx) not only became wealthy themselves; they also provided employment for many other people. Walmart is currently the nation's largest private employer.

Businesses and their employees pay taxes that the federal government and local communities use to build hospitals, schools, libraries, playgrounds, roads, and other public facilities. Taxes also help keep the environment clean, support people in need, and provide police and fire protection. Thus, the wealth businesses generate, and the taxes they pay, help everyone in their communities. A nation's businesses are part of an economic system that contributes to the standard of living and quality of life for everyone in the country (and, potentially, the world). How has the slow economic recovery affected the standard of living and quality of life in your part of the world?

The term **standard of living** refers to the amount of goods and services people can buy with the money they have. For example, the United States has one of the highest standards of living in the world, even though workers in some other countries, such as Germany and Japan, may on average make more money per hour. How can that be? Prices for goods and services in Germany and Japan are higher than in the United States, so a person in those countries can buy less than what a person in the United States can buy with the same amount of money. For example, a bottle of beer may cost \$7 in Japan and \$4 in the United States.

Often, goods cost more in one country than in another because of higher taxes and stricter government regulations. Finding the right level of taxes and regulation is important in making a country or city prosperous. We'll explore those issues in more depth in Chapter 2. At this point, it is enough to understand that the United States enjoys a high standard of living largely because of the wealth created by its businesses.

The term **quality of life** refers to the general well-being of a society in terms of its political freedom, natural environment, education, health care, safety, amount of leisure, and rewards that add to the satisfaction and joy that other goods and services provide. Maintaining a high quality of life requires the combined efforts of businesses, nonprofit organizations, and government agencies. Remember, there is more to quality of life than simply making money.

Responding to the Various Business Stakeholders

Stakeholders are all the people who stand to gain or lose by the policies and activities of a business and whose concerns the business needs to address. They include customers, employees, stockholders, suppliers, dealers (retailers), bankers, people in the surrounding community, the media, environmentalists, competitors, unions, critics, and elected government leaders (see Figure 1.1).⁴



©Tom Hauck/AP Images

In 1979, Geral Fauss took 5,000 oversized foam fingers to the Sugar Bowl in New Orleans not knowing if he would sell a single one. The former high school shop teacher created the now-famous fingers a few years earlier and they became a big hit with his students. Fortunately, the Sugar Bowl crowd liked them, too. He sold every last finger and launched a company that is still going strong. What risks and rewards did Fauss face when starting his business?

risk

(1) The chance an entrepreneur takes of losing time and money on a business that may not prove profitable. (2) The chance of loss, the degree of probability of loss, and the amount of possible loss.

standard of living

The amount of goods and services people can buy with the money they have.

connect

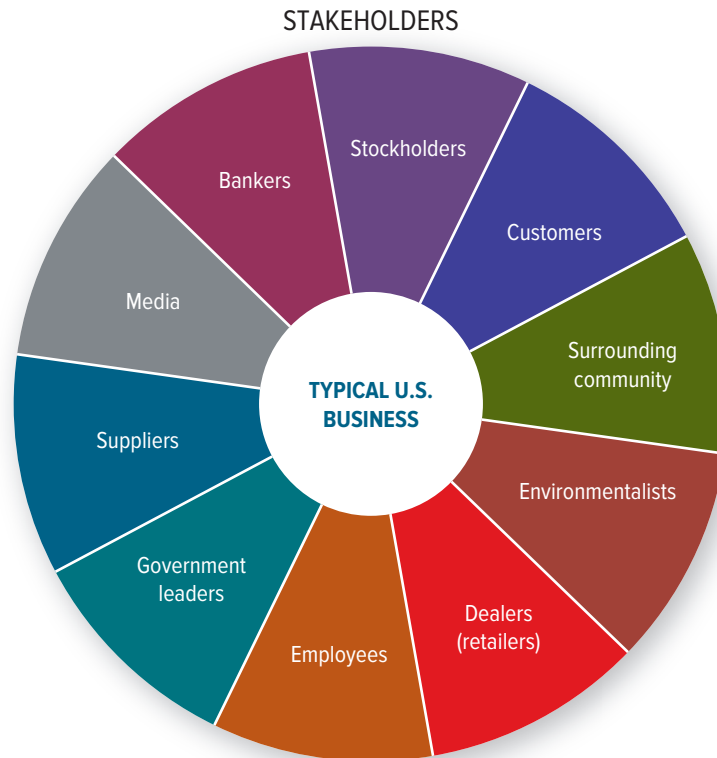


iSee It! Need help understanding standard of living vs. quality of life? Visit your Connect e-book for a brief animated explanation.

FIGURE 1.1 A BUSINESS AND ITS STAKEHOLDERS

Often the needs of a firm's various stakeholders will conflict. For example, paying employees more may cut into stockholders' profits. Balancing such demands is a major role of business managers.

Source: John Mackey and Raj Sisodia, *Conscious Capitalism* (Boston, MA: Harvard Business Review Press, 2013).



quality of life

The general well-being of a society in terms of its political freedom, natural environment, education, health care, safety, amount of leisure, and rewards that add to the satisfaction and joy that other goods and services provide.

stakeholders

All the people who stand to gain or lose by the policies and activities of a business and whose concerns the business needs to address.

outsourcing

Contracting with other companies (often in other countries) to do some or all of the functions of a firm, like its production or accounting tasks.

nonprofit organization

An organization whose goals do not include making a personal profit for its owners or organizers.

A primary challenge for organizations of the 21st century will be to recognize and respond to the needs of their stakeholders. For example, the need for the business to make profits may be balanced against the needs of employees to earn sufficient income or the need to protect the environment. Ignore the media, and they might attack your business with articles that hurt sales. Oppose the local community, and it may stop you from expanding.

Staying competitive may call for outsourcing. **Outsourcing** means contracting with other companies (often in other countries) to do some or all of the functions of a firm, like its production or accounting tasks. Outsourcing has had serious consequences in some states where jobs have been lost to overseas competitors. We discuss outsourcing in more detail in Chapter 3.

The other side of the outsourcing coin is *insourcing*. Many foreign companies are setting up design and production facilities here in the United States. For example, Korea-based Hyundai operates design and engineering headquarters in Detroit, Michigan, and produces cars in Montgomery, Alabama.⁵ Japanese automaker Honda has been producing cars in the United States for years, and opened its 12th U.S. manufacturing plant in 2016.⁶ Charter brought back its Spanish-speaking call centers to the United States.⁷ Insourcing creates many new U.S. jobs and helps offset those jobs being outsourced.

It may be legal and profitable to outsource, but is it best for all the stakeholders? Business leaders must make outsourcing decisions based on all factors. Pleasing stakeholders is not easy and often calls for trade-offs.

Using Business Principles in Nonprofit Organizations

Despite their efforts to satisfy their stakeholders, businesses cannot do everything needed to make a community all it can be. Nonprofit organizations—such as public schools, civic associations, 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. A **nonprofit organization** is an organization whose goals do not include making a personal profit for its owners or organizers. Nonprofit organizations often do strive for financial gains, but they use them to meet their social or educational goals rather than for personal profit.



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The goals of nonprofit organizations are social and educational, not profit oriented. The Red Cross, for example, provides assistance to around 30 million people annually, from refugees to victims of natural disasters. Why do good management principles apply equally to profit-seeking businesses and nonprofit organizations?

Your interests may lead you to work for a nonprofit organization. That doesn't mean, however, that you shouldn't study business in college. You'll still need to learn business skills such as information management, leadership, marketing, and financial management. The knowledge and skills you acquire in this and other business courses are useful for careers in any organization, including nonprofits. We'll explore entrepreneurship right after the Test Prep.

TEST PREP

- What is the difference between *revenue* and *profit*?
- What is the difference between *standard of living* and *quality of life*?
- What is *risk*, and how is it related to *profit*?
- What do the terms *stakeholders*, *outsourcing*, and *insourcing* mean?

Use SmartBook to help retain what you have learned. Access your instructor's Connect course and look for the SB/LS logo.



LO 1–2 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

The Importance of Entrepreneurs to the Creation of Wealth

There are two ways to succeed in business. One is to rise through the ranks of a large company. The advantage of working for others is that somebody else assumes the company's entrepreneurial risk and provides you with benefits like paid vacation time and health insurance. It's a good option, and many people choose it.



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To create wealth for its citizens, a country requires more than natural resources. It needs the efforts of entrepreneurs and the skill and knowledge to produce goods and services. How can government support entrepreneurship and the spread of knowledge?

factors of production

The resources used to create wealth: land, labor, capital, entrepreneurship, and knowledge.

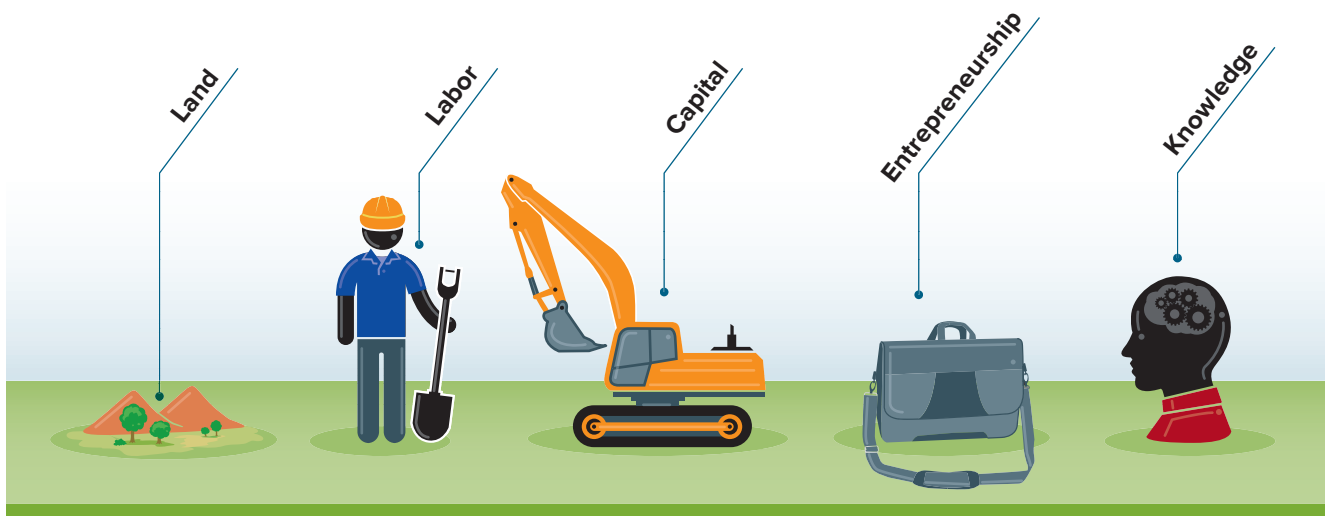
The other, riskier, but often more exciting, path is to become an entrepreneur. The national anthem, “The Star Spangled Banner,” says that the United States is the “land of the free and the home of the brave.” Part of being free is being able to own your own business and reap the profits from it. But freedom to succeed also means freedom to fail, and many small businesses fail each year. It takes a brave person to start one. As an entrepreneur, you don’t receive any benefits such as paid vacation time, day care, a company car, or health insurance. You have to provide them for yourself! But what you gain—freedom to make your own decisions, opportunity, and possible wealth—is often worth the effort. Before you take on the challenge, you should study successful entrepreneurs to learn the process. You can talk to them personally and read about them in Chapter 6, as well as in other books, magazines (e.g., *Entrepreneur*, *Fast Company*, and *Inc.*), and at websites (e.g., Small Business Administration at www.sba.gov).

The Five Factors of Production

Have you ever wondered why some countries are relatively wealthy and others poor? Economists have been studying the issue of wealth creation for many years. They began by identifying five **factors of production** that seemed to contribute to wealth (see Figure 1.2):

1. *Land* (or natural resources). Land and other natural resources are used to make homes, cars, and other products.
2. *Labor* (workers). People have always been an important resource in producing goods and services, but many people are now being replaced by technology.
3. *Capital*. This includes machines, tools, buildings, or whatever else is used in the production of goods. It might not include money; money is used to buy factors of production but is not always considered a factor by itself.
4. *Entrepreneurship*. All the resources in the world have little value unless entrepreneurs are willing to take the risk of starting businesses to use those resources.
5. *Knowledge*. Information technology has revolutionized business, making it possible to quickly determine wants and needs and to respond with desired goods and services.

FIGURE 1.2 THE FIVE FACTORS OF PRODUCTION



Source: Drucker Institute, druckerinstitute.com, April 2017.

Traditionally, business and economics textbooks emphasized only four factors of production: land, labor, capital, and entrepreneurship. But the late management expert and business consultant Peter Drucker said the most important factor of production in our economy is and always will be *knowledge*.⁸

What do we find when we compare the factors of production in rich and poor countries? Some poor countries have plenty of land and natural resources. Russia, for example, has vast areas of land with many resources such as timber and oil, but it is not considered a rich country (yet). Therefore, land isn't the critical element for wealth creation.

Most poor countries, such as Mexico, have many laborers, so it's not labor that's the primary source of wealth today. Laborers need to find work to make a contribution; that is, they need entrepreneurs to create jobs for them. Furthermore, capital—machinery and tools—is now fairly easy for firms to find in world markets, so capital isn't the missing ingredient either. Capital is not productive without entrepreneurs to put it to use.

What makes rich countries rich today is a combination of *entrepreneurship* and the effective use of *knowledge*. Entrepreneurs use what they've learned (knowledge) to grow their businesses and increase wealth. Economic and political freedom also matter.

The business environment either encourages or discourages entrepreneurship. That helps explain why some states and cities in the United States grow rich while others remain relatively poor. In the following section, we'll explore what makes up the business environment and how to build an environment that encourages growth and job creation.

TEST PREP

- What are some of the advantages of working for others?
- What benefits do you lose by being an entrepreneur, and what do you gain?
- What are the five factors of production? Which ones seem to be the most important for creating wealth?

Use SmartBook to help retain what you have learned. Access your instructor's Connect course and look for the SB/LS logo.



The Business Environment

The **business environment** consists of the surrounding factors that either help or hinder the development of businesses. Figure 1.3 shows the five elements in the business environment:

1. The economic and legal environment.
2. The technological environment.
3. The competitive environment.
4. The social environment.
5. The global business environment.

Businesses that create wealth and jobs grow and prosper in a healthy environment. Thus, creating the right business environment is the foundation for social benefits of all kinds, including good schools, clean air and water, good health care, and low rates of crime. Businesses normally can't control their environment, but they need to monitor it carefully and do what they can to adapt as it changes.

LO 1–3 Analyze the effects of the economic environment and taxes on businesses.

business environment

The surrounding factors that either help or hinder the development of businesses.

The Economic and Legal Environment

People are willing to start new businesses if they believe the risk of losing their money isn't too great. The economic system and the way government works with or against businesses can have a strong impact on that level of risk. For example, a government can minimize