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TWELFTH EDITION

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business essentials

TWELFTH EDITION

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For Griffin Grace, Sutton Sloane, and Andrew Preston—I do this for them.
—R. W. G.

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brief contents

Part 1 The Contemporary Business World

- 1** The U.S. Business Environment 2
- 2** Understanding Business Ethics and Social Responsibility 36
- 3** Entrepreneurship, New Ventures, and Business Ownership 72
- 4** Understanding the Global Context of Business 106

Part 2 Managing the Business

- 5** Managing the Business 140
- 6** Organizing the Business 172
- 7** Operations Management and Quality 202

Part 3 People in Organizations

- 8** Employee Behavior and Motivation 242
- 9** Leadership and Decision Making 276
- 10** Human Resource Management and Labor Relations 306

Part 4 Principles of Marketing: Building Relationships with Customers for Competitive Advantage

- 11** Marketing Processes and Consumer Behavior 342
- 12** Developing and Pricing Products 378
- 13** Distributing and Promoting Products 410

Part 5 Managing Information for Better Business Decisions

- 14** Information Technology (IT) for Business 442
- 15** The Role of Accountants and Accounting Information 476

Part 6 The Financial System and Issues in Financial Management

- 16** Understanding Money and the Role of Banking 510
- 17** Managing Business Finances 544

Appendices

- Appendix I:** Risk Management 585
- Appendix II:** The Legal Context of Business 589
- Appendix III:** Managing Your Personal Finances 595
- Appendix IV:** Unions and Labor Management 607

Glossary 623

Index 641

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contents

About the Authors xvii

Preface xix

Acknowledgments xxv

Part 1 The Contemporary Business World

1 The U.S. Business Environment 2

Chapter Opening Case: Doing Business in the Global Marketplace 5

Business, Profit, and the External Environment 7

Business and Profit 7

The External Environments of Business 8

finding a better way: The B Team 9

Economic Systems 11

Factors of Production 11

Types of Economic Systems 13

entrepreneurship and new ventures: The Lucrative Business of App Development 14

The Economics of Market Systems 16

Demand and Supply in a Market Economy 16

Private Enterprise and Competition in a Market Economy 18

Economic Indicators 20

Economic Growth, Aggregate Output, and Standard of Living 21

Economic Stability 25

managing in turbulent times: Financial Turmoil—Is the Worst Behind Us? 26

Managing the U.S. Economy 27

Developing Skills in Your Career 28

summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • endnotes

2 Understanding Business Ethics and Social Responsibility 36

Chapter Opening Case: Simply Divine 39

Ethics in the Workplace 40

Individual Ethics 40

The Law and the Real World 40

Individual Values and Morals 41

Business and Managerial Ethics 41

Assessing Ethical Behavior 42

Company Practices and Business Ethics 43

Social Responsibility 46

The Stakeholder Model of Responsibility 47

entrepreneurship and new ventures: Social Capital Is Making the World a Better Place 47

Contemporary Social Consciousness 48

Areas of Social Responsibility 49

Responsibility Toward the Environment 49

finding a better way: Mission Zero 50

Responsibility Toward Customers 52

Responsibility Toward Employees 54

Responsibility Toward Investors 55

Implementing Social Responsibility Programs 56

Approaches to Social Responsibility 56

Social Responsibility and the Small Business 57

The Government and Social Responsibility 58

How Governments Influence Business 59

How Business Influences Government 60

Managing Social Responsibility 60

Formal Organizational Dimensions 61

Informal Organizational Dimensions 61

Evaluating Social Responsibility 62

managing in turbulent times: Shredding the Electronic Paper Trail 63

summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • endnotes

3 Entrepreneurship, New Ventures, and Business Ownership 72

Chapter Opening Case: It All Started With a Late Fee 75

What Is a Small Business? 76

The Importance of Small Business in the U.S. Economy 77

Popular Areas of Small Business Enterprise 78

finding a better way: The Rise of Services 80

Entrepreneurship 81

Entrepreneurship Goals 81

Entrepreneurial Characteristics 81

Starting and Operating a New Business 82

Understanding Distinctive Competencies 82

Crafting a Business Plan 83

Starting the Small Business 84
Financing the Small Business 85

Trends, Successes, and Failures in New Ventures 87

Trends in Small Business Start-Ups 87
managing in turbulent times: The Wide World of Risk 89
Reasons for Failure 89
Reasons for Success 90

Noncorporate Business Ownership 90

Sole Proprietorships 91
Partnerships 91
Cooperatives 93

Corporations 93

The Corporate Entity 94
Types of Corporations 94
entrepreneurship and new ventures: More Than Just a Burger and Fries 96
Managing a Corporation 96
Special Issues in Corporate Ownership 97
summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • endnotes

4 Understanding the Global Context of Business 106

Chapter Opening Case: The Door Opens 109

The Contemporary Global Economy 110

The Major World Marketplaces 111
finding a better way: Too Much of a Good Thing? China's Success Creates More Jobs in Mexico 113
Trade Agreements and Alliances 113

International Trade 115

Balance of Trade 116
Balance of Payments 118
Exchange Rates 119
Forms of Competitive Advantage 119
managing in turbulent times: The Ups and Downs of Globalization 120

International Business Management 121

Going International 121
entrepreneurship and new ventures: A Better Coconut Water 123
Levels of International Involvement 123
International Organization Structures 124

Understanding the Cultural Environment 126

Values, Symbols, Beliefs, and Language 126
Employee Behavior Across Cultures 127

Barriers to International Trade 129

Economic Differences 129
Legal and Political Differences 129
summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • crafting a business plan • endnotes

Part 2 Managing the Business

5 Managing the Business 140

Chapter Opening Case: Alphabet Soup 143

The Management Process 144

Basic Management Functions 144
The Science and the Art of Management 146
Becoming a Manager 147

Types of Managers 149

Levels of Management 149
Areas of Management 150
entrepreneurship and new ventures: Innovations in Management 151

Management Roles and Skills 152

Managerial Roles 152
Basic Management Skills 154

Strategic Management: Setting Goals and Formulating Strategy 156

Setting Business Goals 156
Types of Strategy 158
finding a better way: Standing Firm on Social Consciousness 159
Formulating Strategy 160
A Hierarchy of Plans 161

Contingency Planning and Crisis Management 162

Contingency Planning 162
managing in turbulent times: When Disaster Strikes 163
Crisis Management 163

Management and the Corporate Culture 164

Building and Communicating Culture 164
Changing Culture 165
summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • endnotes

6 Organizing the Business 172

Chapter Opening Case: Organizing for Success 175

What Is Organizational Structure?	176
Organization Charts	176
Determinants of Organizational Structure	177
entrepreneurship and new ventures: Organizing for Growth	178
The Building Blocks of Organizational Structure	179
Job Specialization	179
Departmentalization	180
finding a better way: Blending the Old with the New	181
Establishing the Decision-Making Hierarchy	183
Distributing Authority: Centralization and Decentralization	183
managing in turbulent times: Keeping the Organizational Tools Sharp	184
The Delegation Process	185
Three Forms of Authority	186
Basic Forms of Organizational Structure	187
Functional Structure	187
Divisional Structure	188
Matrix Structure	189
International Structure	189
New Forms of Organizational Structure	191
Informal Organization	192
Informal Groups	192
Organizational Grapevine	193
Intrapreneuring	194
summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • endnotes	
7 Operations Management and Quality	202
Chapter Opening Case: Dessert Is Always a Great Idea	205
What Does Operations Mean Today?	206
Growth in the Services and Goods Sectors	207
Creating Value Through Operations	208
Differences between Service and Goods Manufacturing Operations	210
Operations Processes	211
Business Strategy as the Driver of Operations	212
The Many Faces of Production Operations	212
Operations Planning	214
Capacity Planning	214
Location Planning	215
entrepreneurship and new ventures: Nothing Like a Home-Cooked Meal	215
Layout Planning	216

Quality Planning 217

Methods Planning 218

Operations Scheduling 219

The Master Operations Schedule 219

Detailed Schedules 220

Staff Schedules and Computer-Based Scheduling 221

Project Scheduling 221

Operations Control 222

Materials Management 223

Quality Control 224

Quality Improvement and Total Quality Management 225

The Quality-Productivity Connection 225

managing in turbulent times: Leaner Operations

Restore Balance in the Airline Industry 226

Managing for Quality 226

Tools for Total Quality Management 227

Adding Value Through Supply Chains 229

The Supply Chain Strategy 229

Outsourcing and Global Supply Chains 230

finding a better way: Too Good to Waste 231

summary of learning objectives • key terms • questions

& exercises • building a business: continuing

team exercise • team exercise • exercising your

ethics • cases • crafting a business plan • endnotes

Part 3 People in Organizations

8 Employee Behavior and Motivation 242

Chapter Opening Case: A Living Wage 245

Forms of Employee Behavior 246

Performance Behaviors 246

Organizational Citizenship 247

Counterproductive Behaviors 248

managing in turbulent times: Not Just on the

Playground 248

Individual Differences Among Employees 249

Personality at Work 249

Attitudes at Work 252

Matching People and Jobs 254

Psychological Contracts 254

The Person-Job Fit 256

Basic Motivation Concepts and Theories 256

Classical Theory 256

Early Behavioral Theory 257

entrepreneurship and new ventures: The

Opportunity to Begin Again 260

Contemporary Motivation Theory 261

Strategies and Techniques for Enhancing Motivation 263

- Reinforcement/Behavior Modification 263
- Using Goals to Motivate Behavior 263
- finding a better way:** More Than Just a Paycheck 264
- Participative Management and Empowerment 265
- Work Teams and Team Structures 265
- Job Enrichment and Job Redesign 265
- Modified Work Schedules and Alternative Workplaces 266
- summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • endnotes

9 Leadership and Decision Making 276

Chapter Opening Case: Authentic Leadership 279

The Nature of Leadership 280

- Leadership and Management 281
- Leadership and Power 281

Early Approaches to Leadership 282

- Trait Approaches to Leadership 283
- Behavioral Approaches to Leadership 283

The Situational Approach to Leadership 284

Leadership Through the Eyes of Followers 285

- Transformational Leadership 286
- Charismatic Leadership 286
- entrepreneurship and new ventures:** “Success Unshared Is Failure” 287

Special Issues in Leadership 288

- Leadership Substitutes 288
- Leadership Neutralizers 289

The Changing Nature of Leadership 289

- Leaders as Coaches 289
- Gender and Leadership 290
- finding a better way:** Women Leading the Way 290
- Cross-Cultural Leadership 291

Emerging Issues in Leadership 291

- Strategic Leadership 291
- Ethical Leadership 291
- Virtual Leadership 292
- managing in turbulent times:** The Changing Faces of Leadership 292

Leadership, Management, and Decision Making 293

- The Nature of Decision Making 293
- Rational Decision Making 295
- Behavioral Aspects of Decision Making 297
- summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • endnotes

10 Human Resource Management and Labor Relations 306

Chapter Opening Case: A Unique Partnership Drives Wegmans 309

The Foundations of Human Resource Management 310

- The Strategic Importance of HRM 310
- HR Planning 311

The Legal Context of HRM 313

- Equal Employment Opportunity 313
- Compensation and Benefits 314
- Labor Relations 315
- Health and Safety 315
- Other Legal Issues 315

Staffing the Organization 316

- Recruiting Employees 317
- Selecting Employees 317

Compensation and Benefits 318

- Wages and Salaries 318
- Incentive Programs 319
- Benefits Programs 319
- finding a better way:** Holding True at Nucor Steel 320

Developing the Workforce 322

- Training and Development 322
- Performance Appraisal 323
- entrepreneurship and new ventures:** Time to Go 325

New Challenges in the Changing Workplace 326

- Managing Workforce Diversity 326
- Managing Knowledge Workers 326
- Contingent and Temporary Workers 327
- managing in turbulent times:** The Talent Gap 328

Dealing with Organized Labor 329

- Unionism Today 329
- Collective Bargaining 330
- summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • crafting a business plan • endnotes

Part 4 Principles of Marketing: Building Relationships with Customers for Competitive Advantage

11 Marketing Processes and Consumer Behavior 342

Chapter Opening Case: Building a Brand With Social Media 345

What Is Marketing? 346

- Delivering Value 346
- Goods, Services, and Ideas 347
- Relationship Marketing and Customer Relationship Management 348
- The Marketing Environment 349

Developing the Marketing Plan 351

- managing in turbulent times:** An American Icon 352
- Marketing Strategy: Planning the Marketing Mix 353

Marketing Strategy: Target Marketing and Market Segmentation 357

- Identifying Market Segments 357
- Geographic Segmentation 357
- Demographic Segmentation 358
- Geo-Demographic Segmentation 358
- Psychographic Segmentation 358
- Behavioral Segmentation 359

Marketing Research 359

- The Research Process 359
- Research Methods 361
- finding a better way:** The Truth about Your Online Customer Service 362

Understanding Consumer Behavior 363

- Influences on Consumer Behavior 363
- The Consumer Buying Process 363

Organizational Marketing and Buying Behavior 365

- Business Marketing 365
- B2B Buying Behavior 365
- Social Media and Marketing 366
- The International Marketing Mix 367

- entrepreneurship and new ventures:** Farming Your Niche 369

Small Business and the Marketing Mix 369

- Small-Business Products 369
- Small-Business Pricing 370
- Small-Business Distribution 370
- Small-Business Promotion 370
- summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • endnotes

12 Developing and Pricing Products 378

Chapter Opening Case: The Price of Free College 381**What Is a Product? 382**

- The Value Package 382
- finding a better way:** Snow Wars 383

- Classifying Goods and Services 384
- The Product Mix 385

Developing New Products 386

- entrepreneurship and new ventures** 387
- The New Product Development Process 387
- Product Mortality Rates 388
- The Seven-Step Development Process 388
- Variations in the Process for Services 389

Product Life Cycle 390

- Stages in the PLC 390
- Extending Product Life: An Alternative to New Products 391
- Identifying Products 392

Determining Prices 395

- Pricing to Meet Business Objectives 395
- Price-Setting Tools 396

Pricing Strategies and Tactics 398

- Pricing Strategies 398
- managing in turbulent times:** Fair or Foul? 400
- Pricing Tactics 400
- International Pricing 401
- summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • endnotes

13 Distributing and Promoting Products 410

Chapter Opening Case: The Changing Landscape of Commerce 413**The Distribution Mix 414**

- Intermediaries and Distribution Channels 414
- Distribution Strategies 416
- Channel Conflict and Channel Leadership 416

Wholesaling 417

- Merchant Wholesalers 417
- Agents and Brokers 417
- The E-Intermediary 418
- entrepreneurship and new ventures:** Dispensing Hope 418

Retailing 419

- Types of Brick-and-Mortar Retail Outlets 419
- finding a better way:** The Evolving Way We Pay 420
- Nonstore Retailing 421
- Online Retailing 421

Physical Distribution 423

- Warehousing Operations 423
- Transportation Operations 423
- Distribution Through Supply Chains as a Marketing Strategy 424

The Importance of Promotion 425

- Promotional Objectives 425
- Promotional Strategies 426
- The Promotional Mix 426
- Advertising 426

Personal Selling 429

- Personal Selling Situations 429
- Personal Selling Tasks 429
- managing in turbulent times:** The Logic Behind Logistics 430
- The Personal Selling Process 431
- Sales Promotions 431
- Direct (or Interactive) Marketing 433
- Publicity and Public Relations 433
- summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • crafting a business plan • endnotes

Part 5 Managing Information for Better Business Decisions

14 Information Technology (IT) for Business 442

Chapter Opening Case: Think Before You Click 445

Information Technology Impacts: A Driver of Changes for Business 446

- Creating Portable Offices: Providing Remote Access to Instant Information 447
- Enabling Better Service by Coordinating Remote Deliveries 447
- Creating Leaner, More Efficient Organizations 448
- Enabling Increased Collaboration 448
- Enabling Global Exchange 449
- Improving Management Processes 449
- Providing Flexibility for Customization 449
- Providing New Business Opportunities 450
- Improving the World and Our Lives 451

IT Building Blocks: Business Resources 452

- The Internet and Other Communication Resources 452
- Networks: System Architecture 454
- Hardware and Software 456

entrepreneurship and new ventures: Speaking Loud and Clear: The Future of Voice Technology 457

Information Systems: Harnessing the Competitive Power of It 458

- Leveraging Information Resources: Data Warehousing and Data Mining 459

managing in turbulent times: Better Care, Lower Costs 460

Types of Information Systems 460

IT Risks and Threats 462

- Hackers 463
- Identity Theft 463
- Intellectual Property Theft 464
- Computer Viruses, Worms, and Trojan Horses 464
- Spyware 464
- Spam 464

IT Protection Measures 465

- Preventing Unauthorized Access: Firewalls 465
- Preventing Identity Theft 465
- Preventing Infectious Intrusions: Anti-Virus Software 466
- Protecting Electronic Communications: Encryption Software 466
- Avoiding Spam and Spyware 466
- Ethical Concerns in IT 466

finding a better way: Gleaning Wisdom from the World Wide Web 467

summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • endnotes

15 The Role of Accountants and Accounting Information 476

Chapter Opening Case: CSI: Wall Street 479

What Is Accounting, and Who Uses Accounting Information? 480

- Financial versus Managerial Accounting 481
- Certified Public Accountants 481
- Private Accountants and Management Accountants 483
- Forensic Accountants 484

managing in turbulent times: Skimming Off the Top 485

Federal Restrictions on CPA Services and Financial Reporting: Sarbox 486

The Accounting Equation 486

- Assets and Liabilities 487
- Owners' Equity 487

entrepreneurship and new ventures: Working With the Accounting Equation 488

Financial Statements 489

- Balance Sheets 489
- Income Statements 490
- Statements of Cash Flows 492
- The Budget: An Internal Financial Statement 493

Reporting Standards and Practices 494

Revenue Recognition and Activity Timing 494

Full Disclosure 494

Analyzing Financial Statements 495

Solvency Ratios: Borrower's Ability to Repay Debt 495

Profitability Ratios: Earnings Power for Owners 496

Activity Ratios: How Efficiently Is the Firm Using Its Resources? 496

Bringing Ethics into the Accounting Equation 496

AICPA's Code of Professional Conduct 497

Violations of Accounting Ethics and GAAP 498

finding a better way: Analytics and the Future of Auditing 498**Internationalizing Accounting 499**

International Accounting Standards Board 499

Why One Set of Global Practices? 499

summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • crafting a business plan • endnotes

Part 6 The Financial System and Issues in Financial Management**16 Understanding Money and the Role of Banking 510****Chapter Opening Case:** Where Did All the Money Go? 513**What Is Money? 514**

The Characteristics of Money 514

The Functions of Money 515

M-1: The Spendable Money Supply 516

M-2: M-1 Plus the Convertible Money Supply 517

Credit Cards and Debit Cards: Plastic Money? 517

The U.S. Financial System 517

Financial Institutions 519

The Growth of Financial Services 520

managing in turbulent times: Getting Serious with Credit Standards 522**How Financial Institutions Create Money and Are Regulated 523**

How Money Is Created 523

How Banks Are Regulated 523

The Federal Reserve System 524**finding a better way:** Cultivating a Social Side for Community Banking 525

The Structure of the Fed 525

The Functions of the Fed 526

The Tools of the Fed 527

The Changing Money and Banking System 528

Government Intervention for Stabilizing the U.S. Financial System 528

Anticrime and Antiterrorism Regulations 529

The Impact of Electronic Technologies 530

entrepreneurship and new ventures: Risky Business 531**International Banking and Finance 532**

Currency Values and Exchange Rates 532

The International Payments Process 534

International Bank Structure 534

summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • endnotes

17 Managing Business Finances 544**Chapter Opening Case:** Fire On the Ground 547**Maximizing Capital Growth 548**

The Time Value of Money and Compound Growth 548

Common Stock Investments 550

Investing to Fulfill Financial Objectives 551

Reasons for Investing 551

Most Mutual Funds Don't Match the Market 552

Exchange-Traded Funds 552

entrepreneurship and new ventures: Find a Need, Fill a Need 553**The Business of Trading Securities 553**

Primary and Secondary Securities Markets 554

Stock Exchanges 554

Nonexchange Trading: Electronic Communication Networks 556

Individual Investor Trading 556

Tracking the Market Using Stock Indexes 557

finding a better way: Finding a Way to Fund Life After Work 558**The Risk-Return Relationship 560**

Investment Dividends (or Interest), Appreciation, and Total Return 561

Fantasy Stock Markets 562

Managing Risk with Diversification and Asset Allocation 562

Financing the Business Firm 563

Secured Loans for Equipment 564

Working Capital and Unsecured Loans from Banks 564

Angel Investors and Venture Capital 565

Sale of Corporate Bonds 565

Becoming a Public Corporation 567

Going Public Means Selling Part Ownership of the Company 568

managing in turbulent times: Winners and Losers 568

- Stock Valuation 569
- Market Capitalization 570
- Choosing Equity versus Debt Capital 570

Regulating Securities Markets 572

- The Securities and Exchange Commission 572
- Regulations Against Insider Trading 572
- summary of learning objectives • key terms • questions & exercises • building a business: continuing team exercise • team exercise • exercising your ethics • cases • crafting a business plan • endnotes

Appendices

Appendix I: Risk Management 585

Coping with Risk 585

- Insurance as Risk Management 586

Appendix II: The Legal Context of Business 589

The U.S. Legal and Judicial Systems 589

- Types of Law 589
- The U.S. Judicial System 590

Business Law 591

- Contract Law 591
- Tort Law 591
- Property Law 592
- Agency Law 593
- Commercial Law 593
- Bankruptcy Law 593

The International Framework of Business Law 594

Appendix III: Managing Your Personal Finances 595

Building Your Financial Plan 595

- Assessing Your Current Financial Condition 596
- Developing Your Financial Goals 597

Making Better Use of the Time Value of Money 598

- Planning for the “Golden Years” 598
- Time Value as a Financial-Planning Tool 599

Conserving Money by Controlling It 600

- Credit Cards: Keys to Satisfaction or Financial Handcuffs? 600
- Save Your Money: Lower Interest Rates and Faster Payments 600
- Financial Commitments of Home Ownership 601
- How Much House Can You Afford? 601

Cashing Out from Tax Avoidance (Legally) 604

- The IRA Tax Break 604
- Protecting Your Net Worth 604
- Why Buy Life Insurance? 605
- What Does Life Insurance Do? 605
- How Much Should I Buy? 605
- Why Consider Term Insurance? 605
- How Much Does It Cost? 606

Appendix IV: Unions and Labor Management 607

Why Do Workers Unionize? 607

The Evolution of Unionism in the United States 607

- Early Unions 608
- The Emergence of the Major Unions 608

Unionism Today 610

- Trends in Union Membership 610
- Trends in Union-Management Relations 611
- Trends in Bargaining Perspectives 611
- The Future of Unions 611
- Contemporary Union Structure 612
- Locals 612

Laws Governing Labor-Management Relations 613

- The Major Labor Laws 613

How Unions Are Organized and Certified 616

Collective Bargaining 617

- Reaching Agreement on Contract Terms 617
- Contract Issues 618
- When Bargaining Fails 619
- Administering a Labor Agreement 620

Glossary 623

Index 641

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His experience as a practitioner has fostered an advocacy for integrating concepts with best business practices in business education. The five business books he has coauthored have been translated into Spanish, Chinese (Simplified), Chinese (Traditional), Malaysian, Bahasa Indonesian, and Romanian languages. Professor Ebert has served as the Editor of the *Journal of Operations Management*. He is a Past President and Fellow of the Decision Sciences Institute. He has served as consultant and external evaluator for *Quantitative Reasoning for Business Studies*, an introduction-to-business project sponsored by the National Science Foundation.



Ricky Griffin joined the faculty at Texas A&M University in 1981. During his career at Texas A&M, he has taught undergraduate and graduate courses in management, organizational behavior, human resource management, and international business. Professor Griffin's research interests include workplace aggression and violence, organizational security, workplace culture, and leadership. His work has been published in such journals as *Academy of Management Review*, *Academy of Management Journal*, *Administrative Science Quarterly*, and *Journal of Management*. He served as Associate Editor and then as Editor of *Journal of Management*.

In addition, Professor Griffin has also authored or coauthored several leading textbooks and coedited three scholarly books. His books have been used at more than 500 colleges and universities on five continents and have been translated into Spanish, Russian, Polish, and Chinese. He has served the Academy of Management as Chair of the Organizational Behavior Division and as Program Chair of the Research Methods Division. He also has served as President of the Southwest Division of the Academy of Management and on the Board of Directors of the Southern Management Association. Professor Griffin is a Fellow of both the Academy of Management and the Southern Management Association. He has also won several awards for research and has been supported by more than \$400,000 in federal research funding. Professor Griffin has served as Director of the Center for Human Resource Management and Head of the Department of Management at Texas A&M University. He has also served as Executive Associate Dean and Interim Dean at the Mays Business School.



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preface

New to This Edition

Chapter Opening Cases

All cases have been updated or replaced. Covering a wide variety of topics and organizations, including Netflix and Wegmans, these real-world cases introduce relatable topics that draw students into the content.

Current Events

The author has added new coverage of the likely impact of Donald Trump's election as president of the United States, the looming withdrawal of Great Britain from the European Union, the increasing diversity of the labor force, the continuing impact of social media, and the slow but steady growth of the U.S. economy. He has also added coverage on the emerging new relationship between the United States and Cuba. All data and statistics have also been updated to the most current information available.

End-of-Chapter Activities

Five kinds of chapter-ending involvement activities—to reinforce and practice the use of chapter concepts—are back by popular demand!

The Door Opens

In July 2015, the United States officially restored diplomatic relations with Cuba after 54 years of hostility. President Barack Obama, who was born the year Eisenhower severed ties with the Communist country, urged Congress to reopen the borders, reasoning that, "Instead of supporting democracy and opportunity for the Cuban people, our efforts to isolate Cuba despite good intentions increasingly had the opposite effect—cementing the status quo and isolating the United States from our neighbors in this hemisphere."¹



questions & exercises

QUESTIONS FOR REVIEW

- 4-1. What are the advantages and disadvantages of globalization?
- 4-2. What are the three possible levels of involvement in international business? Give examples of each.
- ★ 4-3. What are the elements of national competitive advantage? Give a current, real-world example of each condition.
- 4-4. Describe the five international organizational structures.

- ★ 4-7. Research and identify a protectionist tariff imposed by the United States. Do you support that tariff? If so, why?
- 4-8. Do you think that a firm operating internationally is better advised to adopt a single standard of ethical conduct or to adapt to local conditions? What are the advantages and disadvantages of adapting to local conditions?

APPLICATION EXERCISES

- 4-9. The World Bank uses per-capita income to make distinctions among countries. Use Web or database research to

Solving Teaching and Learning Challenges

Many students who take Introduction to Business courses have difficulty seeing the relevance of course topics to their lives and future careers. This reduces the willingness of many students to prepare for class and to be engaged during class. We use the following resources to engage students with the content and to highlight how Introduction to Business is relevant and important for their employability and careers.

Applied Learning Opportunities Throughout Business Cases & Features

Managing in Turbulent Times

- Students learn from disappointments and challenges real companies face.

- New features look at recent IPOs, leadership in a virtual world, and workplace bullying.

managing in turbulent times

The Ups and Downs of Globalization

As markets move toward globalization, many countries are experiencing an identity crisis of sorts. The U.S. is rethinking its relationship with the World Trade Organization and NAFTA and reconsidering trade embargos with countries like Myanmar and Cuba. In Britain, after 43 years of strained relations with the European Union (EU), a large portion of the citizens pushed for the United Kingdom to exit the union. This movement took on the name “Brexit.”

The European Union was formed after World War II to foster economic cooperation, and has grown to become a “single market,” essentially allowing goods and people to move around as if the member states were one country. It has its own currency, the euro, which is used by 19 of the member countries (but not Great Britain), and its own parliament. Being part of the single market gave UK businesses easy access to all 500 million customers in the member countries and allowed UK consumers and companies to purchase goods and services from across the continent free of most tariffs and restrictions. It also allowed the relatively free movement of people across borders, much as the people of the US are free to move from state to state. Still, the British people continued to voice concerns over continued participation in the EU.

In 2015, as part of his campaign for re-election, Prime Minister David Cameron promised to put a referendum on the ballot asking voters to decide if they wanted to stay in the EU or exit. The expected logical outcome was to remain with the EU,



Creativa Images/Shutterstock

but the pivotal issues turned out to be a British desire for sovereignty and a fear of immigrants pouring into the country. On the day of the vote, with a 72 percent turnout, 51.9 percent of voters opted to leave.¹² Cameron, who had relied on the benefits of belonging to the EU as the cornerstone of his administration, resigned the day of the vote. The actual exit is a two-year process that is expected to culminate in 2019.

What does this mean for businesses around the world? As the economy and political climates change, expect to see traditional, long-standing relationships, treaties, and trade organizations struggle to keep up with the ups and downs of globalization.

Finding a Better Way

- This boxed feature reveals examples of organizations that are “finding a better way” to meet business challenges and describes how they are doing it.

finding a better way

Too Much of a Good Thing? China’s Success Creates More Jobs in Mexico

In today’s competitive global economy, businesses strive for every possible advantage. Many manufacturers, for example, locate their factories in countries that have an ample supply of low-cost skilled labor. During the 1980s and 1990s, the place to be was Mexico. Hundreds of factories were built just across the U.S.–Mexican border, and workers streamed to the region from other parts of Mexico for stable and well-paying jobs. But in the late 1990s, the world started to shift.

Mexican prosperity, fueled in part by its role as a center of manufacturing, led to increases in the cost of living, followed quickly by wage increases so workers could keep up. At about that same time, China began to emerge as an attractive manufacturing alternative. For instance, in 2003, wages in China were only one-third of the wages in Mexico. And there was certainly no shortage of workers eager to take steady jobs in factories making products for other countries. China’s boom was Mexico’s bust, as one company after another reduced or eliminated manufacturing there and moved to Asia.

In recent years, things have started to tilt back in Mexico’s favor. As China’s economy has flourished, its labor costs have crept higher and higher, so it’s less of a bargain than it used to be. Whereas Mexican wages were once three times higher than wages in China, Mexican wages today are more than 40 percent less than those in China, according to research by Merrill Lynch.⁷ When manufacturers factor in shipping costs (which have increased because of fuel prices), producing in Mexico may cost the same or less than in China. Time differences between the United States and China also can make it difficult to schedule videoconferences and telephone calls.



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Several companies have also been burned by China’s lack of protection for industrial and intellectual property.

Mexico is making enormous gains in the automobile sector. Companies such as Nissan, Honda, Volkswagen, and Mazda have invested billions of dollars in Mexican production vehicles, with over 3.4 million vehicles produced in 2016.⁸ Eighty percent of these cars are exported to other countries, with the bulk being sent to the United States. Because of NAFTA, as well as other trade agreements, Mexico can export cars without tariffs to North and South America as well as Europe and Japan. According to Volkswagen’s Vice President of Corporate Affairs in Mexico, “There’s not another country in the world where you can do that.”⁹ However, the future is uncertain, as the U.S. moves to renegotiate NAFTA and puts pressure on U.S. companies to dissuade them from investing in more projects in Mexico.

Entrepreneurship and New Ventures

- This updated boxed feature shows students entrepreneurs who have really made a difference, some in large firms, others in smaller start-up companies.

entrepreneurship and new ventures

A Better Coconut Water

Founded in 2009, Harmless Harvest is the manufacturer and distributor of a popular line of organic coconut water that is available in stores across the United States. Douglas Riboud and Justin Guilbert saw an opportunity with the sudden popularity of coconut water, but they were troubled by environmental and economic concerns. After extensive research, Riboud and Guilbert concluded that the best-tasting coconut water could be produced from a single species of coconut from Thailand, in spite of lower yields and more complex cultivation. Unlike other producers, their coconut water is pasteurized through high-pressure treatment rather than heat, creating a raw, better-tasting product. According to Riboud, “The most important thing for us is taste. And the best we can do, the hardest job you can do as a manufacturer who works in food, is not screw up the ingredient you had in the first place.”¹⁵

Harmless Harvest has addressed environmental concerns by making sure that their product is organic. They made an early commitment to working with farmers to make sure that no harmful pesticides or synthetic fertilizers were used and worked to obtain organic certification. Although this process was time-consuming and costly, it assured Riboud and Guilbert that their entire supply chain was built upon their vision of sustainability.

Finally, Harmless Harvest has contributed to economic change in a number of ways. In 2015, Harmless Harvest combined its Nam Hom coconut water with organic coffee, creating a drink with 50 mg of naturally occurring caffeine, the equivalent of a shot of espresso. The Peruvian cooperative that harvests Harmless Harvest's organic coffee beans has a focus on empowering women and the impoverished, with over 50 percent of members located in areas of extreme poverty. The organization has seen a significant decrease in domestic



Brent T. Madison/Alamy Stock Photo

abuse against women, as well as an increased priority on educating children to strengthen the community as a whole. Guilbert notes that, “Sourcing from this cooperative is just another proof that better products can be made to benefit everyone involved. It's worth the extra effort.”¹⁶

Reach Every Student with MyLab Intro to Business

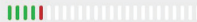
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- **Deliver trusted content:** You deserve teaching materials that meet your own high standards for your course. That's why we partner with highly respected authors to develop interactive content and course-specific resources that you can trust—and that keep your students engaged.
 - **Problem-Based Learning Assignments** make it easy for you to break your students' habit of memorization by challenging them to think critically about timely real-world situations. For example, after students learn about import-export balances, the Problem-Based Learning Assignment asks students to recommend whether Walmart should continue to expand globally even if it's struggled to do so in the past. Working individually or in a group, students think deeper about how to apply the concepts they've learned, and communicate their ideas via writing assignments and in-class discussion. You can assign these within MyLab via auto-graded questions or open-ended writing assignments.
 - **Mini Sims** put students in professional roles and give them the opportunity to apply course concepts and develop decision-making skills through real-world business challenges.

- **Empower each learner:** Each student learns at a different pace. Personalized learning pinpoints the precise areas where each student needs practice, giving all students the support they need—when and where they need it—to be successful.
 - The **Study Plan** gives students personalized recommendations, practice opportunities, and learning aids to help them stay on track.
 - **Dynamic Study Modules** help students study chapter topics on their own by continuously assessing their knowledge application and performance in real time.

PEARSON
return Michelle Zeng

Ch12a



QUESTION

What is the general term for the end user who buys products?

ANSWER

Consumer

Specialty buyer

I AM SURE
Convenience buyer

Industrial buyer

I DON'T KNOW YET

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- **Teach your course your way:** Your course is unique. So, whether you'd like to build your own assignments, teach multiple sections, or set prerequisites, MyLab gives you the flexibility to easily create *your* course to fit *your* needs..
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Wearing the Hats

There's an old adage about people wearing different "hats." In general, this means that people usually have different roles to play in different settings. For example, your roles may include student, child, spouse, employee, friend, or parent. You could think of each of these roles as needing a different hat—when you play the role of a student, for example, you wear one hat, but when you leave campus and go to your part-time job, you put on a different hat. From the perspective of studying and interfacing with the world of business, there are a variety of different hats that you might wear:

- **The Employee Hat.** One hat is as an employee working for a business. Many people wear this hat during the early stages of their career. To wear the hat successfully, you will need to understand your place in the organization—your job, how to work with your co-workers and boss, and so on. You'll begin to see how to best wear this hat as you learn more about organizing business enterprises in Chapter 6 and how organizations manage people in Chapter 10, as well as in several other places in this book.

- The Employer or Boss Hat. It is also very likely that one day other people will be working for you. You'll still need to know your own job responsibilities, of course. But you'll now also need to understand how to manage other people—how to understand, lead, and motivate them and the social and legal parameters that affect how you deal with them. Chapters 3, 5, 8, and 9 provide a lot of information about how you can best wear this hat, although the role of manager runs throughout the entire book.
- The Consumer Hat. Even if you don't work for a business, you will still wear the hat of a consumer. Whenever you fill your car at Shell, buy an airline ticket from Delta and charge it on Visa, order a new backpack from Amazon, bid for something on eBay, buy clothes at H&M, or download a song from iTunes, you're consuming products created by business. To wear this hat effectively, you need to understand how to assess the value of what you're buying, your rights as a consumer, and so on. We discuss how you can best wear this hat in Chapters 4, 7, 11, 12, and 13.
- The Investor Hat. The final business hat is that of an investor. You may buy a business or work for a company that lets you buy its stock. You may also invest in other companies by buying their stock or shares of a mutual fund. For you to invest wisely, you must understand some basics, such as financial markets, business earnings, and the basic costs of investment. Chapters 4, 15, 16, 17, and Appendix III will help you learn how to best wear this hat.

Many people wear more than one of these hats at the same time. Regardless of how many hats you wear or when you may be putting them on, it should be clear that you have in the past, do now, and will in the future interface with many businesses in different ways. Knowing how to best wear all these hats is what this book is all about.

Developing Skills for Your Career

For students to succeed in a rapidly changing job market, they should be aware of their career options and how to go about developing a variety of skills. In this book and MyLab, we focus on developing these skills in the following ways:

Communication: Communication is covered in several places throughout the book. For example, Chapter 5 discusses how leaders communicate the corporate culture, while Chapter 6 discusses how managers communicate the delegation process and how managers can use communication to offset errors in the grapevine.

Critical Thinking: Chapter 9 devotes specific attention to the decision-making process. Chapter 11 discusses the research process and research methods. Collaboration teams and team-based methods of organizing are discussed in Chapters 6 and 8. At the end of each chapter, there is also a continuing team exercise.

Business Ethics and Social Responsibility: Chapter 2 is entirely devoted to ethics and social responsibility.

Information Technology Application and Computing Skills: Chapter 14 is devoted to information technology application and computing skills for business.

Instructor Teaching Resources

This program comes with the following teaching resources.

Supplements available to instructors at www.pearsonhighered.com	Features of the Supplement
Instructor's Manual authored by Carol Davis Wright from California State University, Monterey Bay	<ul style="list-style-type: none"> • Chapter-by-chapter summaries • Examples and activities not in the main book • Teaching outlines • Teaching tips • Solutions to all questions and problems in the book
Test Bank authored by Susan Schanne from Eastern Michigan University	4,000 multiple-choice, true/false, short-answer, and graphing questions with these annotations: <ul style="list-style-type: none"> • Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis) • Type (Multiple-choice, true/false, short-answer, essay) • Topic (The term or concept the question supports) • Learning outcome • AACSB learning standard (Ethical Understanding and Reasoning, Analytical Thinking Skills, Information Technology; Diverse and Multicultural Work, Reflective Thinking, Application of Knowledge) • Page number in the text
Computerized TestGen	TestGen allows instructors to: <ul style="list-style-type: none"> • Customize, save, and generate classroom tests • Edit, add, or delete questions from the test item files • Analyze test results • Organize a database of tests and student results
PowerPoints authored by Jeffrey Anderson from Ohio University	Slides include all the graphs, tables, and equations in the textbook. PowerPoints meet accessibility standards for students with disabilities. Features include, but are not limited to: <ul style="list-style-type: none"> • Keyboard and screen reader access • Alternative text for images • High color contrast between background and foreground colors

acknowledgments

This book bears the names of two authors. In reality, however, it reflects the combined efforts of many different people in what can only be called a team effort. First of all, we'd like to thank our reviewers and users who provided valuable feedback on the current strengths of the book and how we could make it better. The content and subject matter reviewers are highlighted earlier in the preface. In addition, we would also like to thank the following individuals for their contributions to the MyLab. We are truly appreciative of their hard work and important contributions.

Joe Cooke, Walla Walla Community College
Susan Gall
Storm Russo, Valencia College
Susan Schanne, Eastern Michigan University

I would also like to acknowledge the outstanding professionalism of our team at Pearson Education. Nicole Sam, Portfolio Manager; Angela Urquhart, Project Manager; Michelle Zeng, Content Producer; and Andrea Archer, Project Manager; have been instrumental in helping me continue to elevate the quality of my work and make this book even stronger.

I would also like to welcome Joe Cooke to the team. Joe is a professor at Walla Walla Community College. Joe helped update or replace the boxes and cases throughout the book and revised and enhanced all of the end-of-chapter pedagogy. I would also like to acknowledge and express my gratitude to Ron Ebert. Ron and I worked on this book together for many years and his imprint can still be found in many different places.

Finally, we would like to acknowledge our families. Their contributions to our work are far too extensive and personal to list. Suffice it to say that our wives, children, and grandchildren are the bedrocks of our lives. We are continually reminded by them of the fragility of life, the joy of being, and the importance of living every day to the fullest.

Ricky W. Griffin

P.S. (from Ricky)

I would also like to take a few lines here to personally acknowledge and express my gratitude to Ron Ebert. Ron retired from the University of Missouri–Columbia a few years ago after a long and distinguished career but continued to work with me on revisions of this book. However, he recently made the decision to retire from this work as well.

Ron was Chair of the Department of Management at Missouri when I completed my doctorate in 1978 and recruited me to join his department. Simply put, it was one of the best decisions of my life. I learned many lessons from Ron about scholarship, teaching, professionalism, and life and credit him for being one of my most significant mentors throughout my career. More importantly, though, he has been a wonderful friend. Ron, I'll miss working with you but will always treasure our friendship.

Ricky W. Griffin
2017

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b u s i n e s s
e s s e n t i a l s

The U.S. Business Environment

chapter 1

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**The best way to make money is to sell products that
consumers want or need. While this**

sounds simple,

only a few strike gold.

Doing Business in the **Global** Marketplace

You may have heard that China is a communist country, but what does that mean exactly? The terminology can be confusing. In 1978, China moved away from its socialist roots, where the

government (in the form of the Chinese Communist Party) owned the factories and farms, toward a more free-market economy that China itself calls a “socialist market economy.” This relatively new version of China allows individuals to own property and to take risks, as Jack Ma did when he started Alibaba. You may not have heard of his company, but in 2016 Alibaba accounted for 80 percent of China’s online shopping and total sales dwarfed other e-commerce companies like Amazon and eBay.

Ma’s story isn’t one of overnight success, even though it may seem that way in hindsight. It took Ma Yun, aka Jack Ma, four years to pass the stringent entrance exams for college in China, but he persevered and finally received a degree in English. Shortly after that, he worked his way through graduate school, teaching English, to earn a degree in business. Still, he couldn’t land a job in the tough Chinese job market. In the mid-1990s, he took a trip to the United States and experienced the Internet for the first time. Back in China, he started building rudimentary websites for Chinese companies and in 1999 he founded what is now known as the Alibaba Group, a family of online wholesale and retail companies.

The empire began with Alibaba.com, a business-to-business platform that allowed even small businesses access to a vast network of sellers. Building upon this success, Ma launched Taobao and Tmall.com, retail sites targeting the burgeoning Chinese middle class. One of the keys to the success of these sites is Alipay, a financial services firm that provides safe transactions, accounting for as much as 80 percent of online sales. Through Alipay, money is held in escrow until quality of goods is confirmed. This protection has helped to overcome concerns about subpar and fake goods and inadequate remedies through the Chinese legal system.

Jack took the company public in September of 2014, raising \$25 billion overnight and making Jack Ma one of the richest men in the world, despite the fact that he is a Chinese citizen, and the influx of capital from selling stock in the United States has allowed Alibaba to expand almost exponentially. For the fiscal year ended March 31, 2016, Alibaba reported sales of almost \$24 billion, and, counting third party sales through its websites (known as Gross Merchandise



what's in it for me?

Political, technological, cultural, and economic forces created enormous challenges for Jack Ma as he built his business. Even though the details change, these are the same general forces that will challenge you as you enter today's business world. All businesses are subject to the influences of economic forces. But these same economic forces also provide astute managers and entrepreneurs with opportunities for profits and growth. By understanding these economic forces and how they interact, you'll be better able to (1) appreciate how managers must contend with the challenges and opportunities resulting from economic forces from

the standpoint of an employee and a manager or business owner, and (2) understand why prices fluctuate from the perspective of a consumer. You should have a deeper appreciation of the environment in which managers work and a better understanding of why the prices you pay for goods and services go up and down.



In this chapter, we'll first introduce the concepts of profit and loss and then describe the external environments of businesses. As we will see, the domestic business environment, the global business environment, and the technological, political-legal, sociocultural, and economic environments are also important. Next, we'll look at some basic elements of economic systems and describe the economics of market systems. We'll also introduce and discuss several indicators that are used to gauge the vitality of our domestic economic system.

Volume, or GMV), the company surpassed \$485 billion. For comparison, e-Bay reported GMV of \$84 billion for the year ended December 31, 2016 and revenues of \$9 billion.

Marketing has played a big part in the company's success. China is experiencing a high volume of unmarried citizens, and Alibaba managed to usurp an informal holiday, called Singles Day, on November 11th of each year (11.11), that is similar to the American Valentine's Day. In 2009, marketing gurus at Alibaba began launching Double 11 deals to bolster sales during the lull before Christmas, and they hit a magic button. Sales went through the roof, and Alibaba trademarked "Singles Day." On Single's Day 2016, in just one 24-hour period, Alibaba posted \$17.8 billion in GMV.

China is a giant, growing market. In 2015, General Motors sold 3.6 million cars in China and 3 million in the United States, with Buicks and Cadillacs leading the charge. It should be no surprise that sales in China are robust, since China's population is now almost 1.4 billion (roughly 18.5 percent of the world population). Compare that to a population in the United States of less than 330 million in about the same land area. The middle class consumers in China are still a small proportion of the total population, but they are growing in power and size and are consuming more and more goods, as evidenced by Alibaba's sales volume and that of General Motors and the many other international businesses selling to the Chinese markets. Some experts estimate that right now the United States accounts for about half of total world consumptions of goods and services, with only 5 percent of the total population. What happens to the world economy when China catches up with and maybe even surpasses the American per capita rate of consumption? Will there be enough goods and services to supply that amount of demand? Will there be enough natural resources? One of the great challenges of this generation of business people will be to find the socio-economic balance between global demand and supply.

Meanwhile, future opportunities for entrepreneurs are limited only by the imagination as the economy becomes worldwide and borders—both physical and political—continue to disappear.

(After studying the content in this chapter, you should be able to answer the set of discussion questions found at the end of the chapter.)



Bobby Yip/REUTERS/Alamy Stock Photo

Jack Ma

Business, Profit, and the External Environment

OBJECTIVE 1-1 Define

the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

What do you think of when you hear the word *business*? Does it conjure up images of large, successful corporations, such as Apple, Starbucks, and Amazon? Or of once-great but now struggling companies like Sears and Yahoo!? Do you think of multinational giants such as Honda, General Electric, or Nestle? Are you reminded of smaller firms, such as your local supermarket or favorite chain restaurant? Or do you think of even smaller family-owned operations, such as your neighborhood pizzeria, dry cleaners, or the florist down the street?

Business and Profit

All these organizations are **businesses**, organizations that provide goods or services that are then sold to earn profits. Indeed, the prospect of earning **profits**, the difference between a business's revenues and its expenses, is what encourages people to open and expand businesses. After all, profits are the rewards owners get for risking their money and time. The right to pursue profits distinguishes a business from those organizations—such as most universities, hospitals, and government agencies—that run in much the same way but that generally don't seek profits.¹

Business organization that provides goods or services to earn profits

Profits difference between a business's revenues and its expenses

Consumer Choice and Demand In a capitalistic system, such as that in the United States, businesses exist to earn profits for owners; within certain broad constraints, an owner is free to set up a new business, grow that business, sell it, or even shut it down. But consumers also have freedom of choice. In choosing how to pursue profits, businesses must take into account what consumers want or need. No matter how efficient a business is, it won't survive if there is no demand for its goods or services. Neither a snowblower shop in Florida nor a beach umbrella store in Alaska is likely to do well.

Opportunity and Enterprise If enterprising businesspeople can spot a promising opportunity and then develop a good plan for capitalizing on it, they can succeed. For example, when large businesses such as Circuit City, Linens-N-Things, and Blockbuster Video close their doors, other firms profit from these closings by handling the inventory liquidations of these failed companies. And as oil prices recently dropped, gasoline producers like Exxon Mobile and BP have seen their profits decline. But food distributors like Sysco and delivery services such as FedEx saw their expenses drop and hence their profits grow. In general, then, business opportunity involves goods or services that consumers need or want—especially if no one else is supplying them or if existing businesses are doing so inefficiently or incompletely.

The Benefits of Business So what are the benefits of businesses? Businesses produce most of the goods and services we consume, and they employ most working people. They create most innovations and provide a vast range of opportunities for new businesses, which serve as their suppliers. A healthy business climate also contributes to the quality of life and standard of living of people in a society. Business profits enhance the personal incomes of millions of owners and stockholders, and business taxes help to support governments at all levels. Many businesses support charities and provide community leadership. However, some businesses also harm the Earth's environment, and their decision makers sometimes resort to unacceptable practices for their own personal benefit.

We now turn our attention to the environment in which businesses operate. Understanding the environment provides a foundation for our subsequent discussions dealing with economic forces that play a major role in the success and failure of businesses everywhere.

The External Environments of Business

External Environment everything outside an organization's boundaries that might affect it

All businesses, regardless of their size, location, or mission, operate within a larger external environment. This **external environment** consists of everything outside an organization's boundaries that might affect it. (Businesses also have an *internal environment*, more commonly called *corporate culture*; we discuss this in Chapter 5.) Not surprisingly, the external environment plays a major role in determining the success or failure of any organization. Managers must, therefore, have a thorough and accurate understanding of their environment and then strive to operate and compete within it. Businesses can also influence their environments. Figure 1.1 shows the major dimensions and elements of the external environment as it affects businesses today. As you can see, these include the *domestic business environment*, the *global business environment*, the *technological environment*, the *political-legal environment*, the *sociocultural environment*, and the *economic environment*.

Domestic Business Environment the environment in which a firm conducts its operations and derives its revenues

Domestic Business Environment The **domestic business environment** refers to the environment in which a firm conducts its operations and derives its revenues. In general, businesses seek to be close to their customers, to establish strong relationships with their suppliers, and to distinguish themselves from their competitors. Take Urban Outfitters, for example. The firm initially located its stores near urban college campuses; it now locates stores in other, often more upscale, areas as well. The company also has a strong network of suppliers and is itself a wholesale



FIGURE 1.1 Dimensions of the External Environment

finding a better way

The B Team

As a general rule, we would say that the goal of every business is to achieve and maximize profits. The executives of the organization also have a responsibility to shareholders and investors to seek profits, making this their goal in decision making. On the other hand, many nonprofit organizations, such as the Red Cross, American Cancer Society, and the Appalachian Heritage Museum, work to serve the public good or solve social problems. B (or Benefit) Corporations fall in the space between the two.

B corporations are businesses—each is an organization that seeks to earn profits—but performance is measured not only by profits or growth in stock price but also by the organization's impact on society and the environment. Portland, Oregon-based EcoZoom is a B corporation that began in 2011 with a goal of generating a profit as well as concern for the health of their customers, economic development, and environmental awareness. Founder Ben West left his successful career in the transportation industry to earn an MBA. One of his professors was on the board of directors of Aprovecho, a nonprofit that designed cookstoves for use in developing countries. Although Aprovecho had developed great technology, they didn't know how to get the product to the market. This is where EcoZoom entered the story. EcoZoom manufactures the stoves in China and sells them in the United States for camping and other outdoor uses.² However, their primary market is developing countries, such as Kenya, Somalia, and Nigeria, where women and children are being exposed to toxic smoke from inefficient stoves that make them more susceptible to acute illnesses such as pneumonia, lung cancer, and heart disease.³

EcoZoom produces several models of low-emissions cookstoves, each very energy-efficient. Because the cookstoves reduce fuel use and cooking time, women have more time to spend with their families and on other tasks, such as



EcoZoom

maintaining their gardens. Their stoves can burn traditional biomass fuels, such as corncobs and cow dung, as well as wood and charcoal. Since fuel costs can run up to 30 percent of a family's monthly income, the simple addition of an efficient stove can make a huge difference.

The company recently partnered with micro-lending and crowd-funding sites like Trine and Kiva in order to fund distribution, as well as local entrepreneurs and even quasi-government organizations such as the Savings and Credit Cooperative Societies (Saccos) in Kenya that provide credit to families that can't afford to pay cash. EcoZoom, and other B corporations, continue to seek out and find better ways to do business and benefit society.

supplier to other retailers through its Free People division. It has established a clear identity for itself within the domestic business environment that enables it to compete effectively with such competitors as American Eagle and J. Crew.

Global Business Environment The **global business environment** refers to the international forces that affect a business. Factors affecting the global environment at a general level include international trade agreements, international economic conditions, political unrest, and so forth. For example, as political protests spread through much of the Middle East in 2014, oil prices began to surge and companies with operations in the region took emergency measures to protect their employees. But in 2015, a global oil surplus caused oil prices to plunge. At a more immediate level, any given business is likely to be affected by international market opportunities, suppliers, cultures, competitors, and currency values. For instance, Urban Outfitters currently has stores in the United States, Canada, Belgium, France, Denmark, Germany, Ireland, Scotland, Sweden, and several others and ships to

Global Business Environment *the international forces that affect a business*