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TWELFTH EDITION

Business Foundations

➤ A CHANGING WORLD



O.C. Ferrell
Geoffrey A. Hirt
Linda Ferrell

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Education



Business Foundations

A Changing World

twelfth edition

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Auburn University

Geoffrey A. Hirt

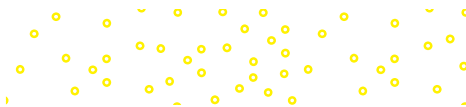
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BUSINESS FOUNDATIONS: A CHANGING WORLD

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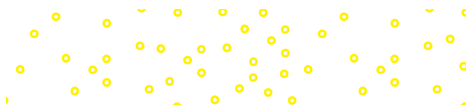
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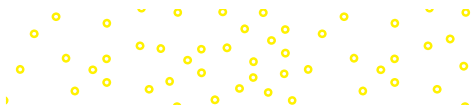
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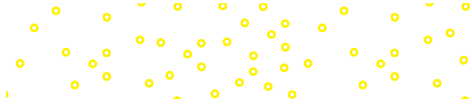


Dedication

To James Ferrell

To Linda Hirt

To George Ferrell





Authors



O.C. FERRELL



O.C. Ferrell is the James T. Pursell Sr. Eminent Scholar in Ethics and Director of the Center for Ethical Organizational Cultures in the Raymond J. Harbert College of Business,

Auburn University. He was formerly Distinguished Professor of Leadership and Business Ethics at Belmont University and University Distinguished Professor at the University of New Mexico. He has also been on the faculties of the University of Wyoming, Colorado State University, University of Memphis, Texas A&M University, Illinois State University, and Southern Illinois University. He received his PhD in marketing from Louisiana State University.

Dr. Ferrell is president of the Academy of Marketing Science. He is past president of the Academic Council of the American Marketing Association and chaired the American Marketing Association Ethics Committee. Under his leadership, the committee developed the AMA Code of Ethics and the AMA Code of Ethics for Marketing on the Internet. In addition, he is a former member of the Academy of Marketing Science Board of Governors and is a Society of Marketing Advances and Southwestern Marketing Association Fellow and an Academy of Marketing Science Distinguished Fellow. He has served for nine years as the vice president of publications for the Academy of Marketing Science. In 2010, he received a Lifetime Achievement Award from the Macromarketing Society and a special award for service to doctoral students from the

Southeast Doctoral Consortium. He received the Harold Berkman Lifetime Service Award from the Academy of Marketing Science and, more recently, the Cutco Vector Distinguished Marketing Educator Award from the Academy of Marketing Science.

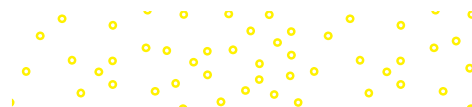
Dr. Ferrell has been involved in entrepreneurial engagements, co-founding Print Avenue in 1981, providing a solution-based printing company. He has been a consultant and served as an expert witness in legal cases related to marketing and business ethics litigation. He has conducted training for a number of global firms, including General Motors. His involvement with direct selling companies includes serving on the Academic Advisory Committee and as a fellow for the Direct Selling Education Foundation.

Dr. Ferrell is the co-author of 20 books and more than 100 published articles and papers. His articles have been published in the *Journal of Marketing Research*, *Journal of Marketing*, *Journal of Business Ethics*, *Journal of Business Research*, *Journal of the Academy of Marketing Science*, *AMS Review*, and the *Journal of Public Policy & Marketing*, as well as other journals.

GEOFFREY A. HIRT



Geoffrey A. Hirt of DePaul University previously taught at Texas Christian University and Illinois State University, where he was chairman of the Department of Finance and Law. At DePaul, he was chairman of the Finance Department from 1987 to 1997 and



held the title of Mesirow Financial Fellow. He developed the MBA program in Hong Kong and served as director of international initiatives for the College of Business, supervising overseas programs in Hong Kong, Prague, and Bahrain, and was awarded the Spirit of St. Vincent DePaul award for his contributions to the university. Dr. Hirt directed the Chartered Financial Analysts (CFA) study program for the Investment Analysts Society of Chicago from 1987 to 2003. He has been a visiting professor at the University of Urbino in Italy, where he still maintains a relationship with the economics department. He received his PhD in finance from the University of Illinois at Champaign-Urbana, his MBA at Miami University of Ohio, and his BA from Ohio Wesleyan University.

Dr. Hirt is currently on the Dean's Advisory Board and Executive Committee of DePaul's School of Music. The Tyree Foundation funds innovative education programs in Chicago, and Dr. Hirt also serves on the Grant Committee. Dr. Hirt is past president and a current member of the Midwest Finance Association, a former editor of the *Journal of Financial Education*, and also a member of the Financial Management Association. He belongs to the Pacific Pension Institute, an organization of public pension funds, private equity firms, and international organizations such as the Asian Development Bank, the IMF, and the European Bank for Reconstruction and Development.

Dr. Hirt is widely known for his textbook *Foundations of Financial Management*, published by McGraw-Hill/Irwin. This book, in its sixteenth edition, has been used in more than 31 countries and translated into more than 14 different languages. Additionally, Dr. Hirt is well known for his textbook *Fundamentals of Investment Management*, also published by McGraw-Hill/Irwin and now in its tenth edition. Dr. Hirt enjoys golf, swimming, music, and traveling with his wife, who is a pianist and opera coach.

LINDA FERRELL



Linda Ferrell is Professor and Chair of the Marketing Department in the Raymond J. Harbert College of Business, Auburn University. She was formerly Distinguished Professor of Leadership and Business Ethics at Belmont University. She completed her PhD in business administration, with a concentration in management, at the University of Memphis. She has taught at the University of Tampa, Colorado State University, University of Northern Colorado, University of Memphis, University of Wyoming, and the University of New Mexico. She has also team-taught classes at Thammasat University in Bangkok, Thailand.

Her work experience as an account executive for McDonald's and Pizza Hut's advertising agencies supports her teaching of advertising, marketing management, marketing ethics, and marketing principles. She has published in the *Journal of Public Policy & Marketing*, *Journal of Business Research*, *Journal of the Academy of Marketing Science*, *Journal of Business Ethics*, *AMS Review*, *Journal of Academic Ethics*, *Journal of Marketing Education*, *Marketing Education Review*, *Journal of Teaching Business Ethics*, *Marketing Management Journal*, and *Case Research Journal*, and she is co-author of *Business Ethics: Ethical Decision Making and Cases* (eleventh edition), *Management* (third edition), and *Business and Society* (sixth edition).

Dr. Ferrell is the immediate past president of the Academy of Marketing Science and a past president for the Marketing Management Association. She is a member of the NASBA Center for the Public Trust Board, on the Mannatech Board of Directors, and on the college advisory board for Cutco/Vector. She is also on the Board, Executive Committee, and Academic Advisory Committee of the Direct Selling Education Foundation. She has served as an expert witness in cases related to advertising, business ethics, and consumer protection.



Welcome

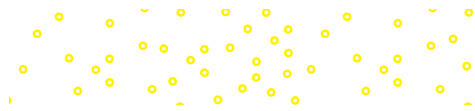
The twelfth edition represents a complete and comprehensive revision. This is because so many events and changes in the environment relate to the foundational concepts in business. This means that an introduction to business product has to provide adequate coverage of dynamic changes in the economy as they relate to business decisions. We have listened to your feedback and incorporated needed changes in content, boxes, cases, exercises, support, online resources, and other features.

This is our fifth edition with a chapter on digital marketing and social networking in business. Since launching this chapter in the eighth edition, this dynamic area continues to change the face of business. Entrepreneurs and small businesses have to be able to increase sales and reduce costs by using social networking to communicate and develop relationships with customers. The sharing, or “gig,” economy is transforming entrepreneurial opportunities for employees. For example, the number of independent contractors in our economy has increased to almost one-third of the workforce. The Internet is providing opportunities for peer-to-peer relationships for companies such as Uber, Lyft, TaskRabbit, as well as health care services like Dose. Digital marketing has helped many entrepreneurs launch successful businesses. The increase in independent contractors has contributed to a new trend called co-working. For example, WeWork, discussed in Chapter 10, is capitalizing on these co-working opportunities by offering flexible, agile workspaces to businesses ranging from freelancers to *Fortune* 500 companies.

Throughout the product, we recognize the importance of sustainability and “green” business. By using the philosophy *reduce, reuse, and recycle*, we believe every business can be more profitable and contribute to a better world through green initiatives. There is a “Going Green” box in each chapter that covers these environmental changes. Our “Entrepreneurship in Action” boxes also discuss many innovations and opportunities to use sustainability for business success. Sustainability is not only a goal of many businesses, but it is also providing career opportunities for many of our students.

We have been careful to continue our coverage of global business, ethics and social responsibility, and information technology as they relate to the foundations important in an introduction to business course. Our co-author team has a diversity of expertise in these important areas. O.C. Ferrell and Linda Ferrell have been recognized as leaders in business ethics education, and their insights are reflected in every chapter and in the “Business Integrity” boxes. Geoff Hirt has a strong background in global business development, especially world financial markets and trade relationships.

The foundational areas of introduction to business, entrepreneurship, small business management, marketing, accounting, and finance have been completely revised. Examples have been provided to which students can easily relate. An understanding of core functional areas of business is presented so students get a holistic view of the world of business. Box examples related to “Responding to Business Challenges,”



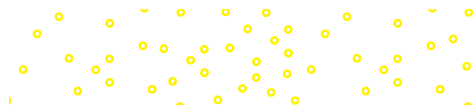
“Entrepreneurship in Action,” “Going Green,” and “Business Integrity” help provide real-world examples in these areas.

Our goal is to make sure that the content and teaching package for this book are of the highest quality possible. We wish to seize this opportunity to gain your trust, and we appreciate any feedback to help us continually improve these materials. We hope that the real beneficiary of all of our work will be well-informed students who appreciate the role of business in society and take advantage of the opportunity to play a significant role in improving our world. In this new edition, we have additional content to help our students understand how our free enterprise system operates and how we fit into the global competitive environment. This course is an opportunity for students to understand how they can create their own success and improve their quality of life.

O.C. Ferrell

Geoffrey A. Hirt

Linda Ferrell





Focused, Exciting, Applicable, Happening

Business Foundations: A Changing World, twelfth edition, offers faculty and students a **focused** resource that is **exciting, applicable, and happening!** What sets this learning program apart from the competition? An unrivaled mixture of exciting content and resources blended with application focused text and activities, and fresh topics and examples that show students what is happening in the world of business today!

Our product contains all of the essentials that most students should learn in a semester. *Business Foundations* has, since its inception, delivered a focused presentation of the essential material needed to teach introduction to business. An unrivaled mixture of exciting content and resources, application-focused content and activities, and fresh topics and examples that show students what is happening in the world of business today set this text apart!

Focused!

It's easy for students taking their first steps into business to become overwhelmed. Longer products try to solve this problem by chopping out examples or topics to make ad hoc shorter editions. *Business Foundations* carefully builds just the right mix of coverage and applications to give your students a firm grounding in business principles. Where other products have you sprinting through the semester to get everything in, Ferrell/Hirt/Ferrell allows you the breathing space to explore topics and incorporate other activities that are important to you and your students. The exceptional resources and the *Active Classroom Resource Manual* support you in this effort every step of the way.

Exciting

It's exciting to see students succeed! It's exciting to see more As and Bs in a course without grade inflation. Ferrell/Hirt/Ferrell makes these results possible for your course with its integrated learning package that is proven effective, tailored to each individual student, and easy to use.

Applicable

When students see how content applies to them, their life, their career, and the world around them, they are more engaged in the course. *Business Foundations* helps students maximize their learning efforts by setting clear objectives; delivering interesting cases and examples; focusing on core issues; and providing engaging activities to apply concepts, build skills, and solve problems.

Happening!

Because it isn't tied to the revision cycle of a larger book, *Business Foundations* inherits no outdated or irrelevant examples or coverage. Everything in the twelfth edition reflects the very latest developments in the business world—from the recent recession, high unemployment rates, and the financial instability in Europe to the growth of digital marketing and social networking. In addition, ethics continues to be a key issue, and Ferrell/Hirt/Ferrell use “Business Integrity” boxes to instill in students the importance of ethical conduct in business. To ensure you always know what's happening, join the author-led Facebook group page supporting this text.





New to This Edition

As always, when revising this material for the current edition, all examples, figures, and statistics have been updated to incorporate any recent developments that affect the world of business. Additionally, content was updated to ensure the most pertinent topical coverage is provided. We now provide bonus chapters in the text—Bonus Chapter A, The Legal and Regulatory Environment, and Bonus Chapter B, Personal and Financial Planning—to meet market demands. In addition, we have added a new online Appendix C, which provides the basics of risk management. Both insurable and noninsurable risk are covered in this appendix.

Here are the highlights for each chapter:

Chapter 1: The Dynamics of Business and Economics

- New boxed features describing real-world business issues
- Updated unemployment statistics
- New chart on online retailing

Chapter 2: Business Ethics and Social Responsibility

- New boxed features describing issues in business ethics and social responsibility
- New data on global trust in different industries
- New examples about ethical issues in the sharing economy
- New content about aggressive financial or business objectives
- New example of a bribery scandal

Chapter 3: Business in a Borderless World

- New boxed features describing issues in international business
- Updated list of top 10 countries with which the U.S. has trade deficits/surpluses
- New content on U.S. aluminum and steel tariffs
- Updated Euro Zone details
- New details on the EU's General Data Protection Regulation (GDPR)

Chapter 4: Options for Organizing Business

- New boxed features describing real-world business issues
- New chart of world's biggest dividend payers
- Updated table of America's largest private companies

Chapter 5: Small Business, Entrepreneurship, and Franchising

- New boxed features describing current business issues
- Examples of innovative small businesses
- New information on artificial intelligence
- Updated table of the fastest growing franchises
- Updated table of the most business-friendly states

Chapter 6: The Nature of Management

- New boxed features describing current business issues
- New content about business models

- New table of compensation packages of CEOs
- New content on gender equality
- New *See for Yourself Videocase*—JCF Fitness

Chapter 7: Organization, Teamwork, and Communication

- New boxed features describing current business issues
- New examples of organizational culture
- New content on artificial intelligence
- New stats on email usage in the workplace
- New *See for Yourself Videocase*—Freshii

Chapter 8: Managing Operations and Supply Chains

- New boxed features describing current business operational issues
- New content on marketing research and artificial intelligence
- New section on blockchain technology
- New content on drone technology
- Extensive overhaul of Managing the Supply Chain section

Chapter 9: Motivating the Workforce

- New boxed features describing current business issues
- New examples of organizational culture

Chapter 10: Managing Human Resources

- New boxed features describing current HR issues
- Updated common job interview questions
- New content on wage gap
- New example of how soft benefits inspire loyalty

Chapter 11: Customer-Driven Marketing

- New boxed features describing current marketing issues
- New content on marketing orientation
- New content on supply chain management
- New content on marketing analytics dashboards

Chapter 12: Dimensions of Marketing Strategy

- New boxed features describing current marketing issues
- Logistics added as key term
- New definition for physical distribution key term
- New *See for Yourself Videocase*—Zappos

Chapter 13: Digital Marketing and Social Media

- New boxed features describing current digital marketing issues
- New stats on social media use by platform
- New stats on mobile app activities

Chapter 14: Accounting and Financial Statements

- New boxed features describing current accounting issues
- Updated rankings of accounting firms in the U.S.
- Updated financial information for Microsoft



Chapter 15: Money and the Financial System

- New boxed features describing current financial issues
- Updated life expectancy of money
- Updated cost to produce coins
- New content on cryptocurrency
- New *See for Yourself Videocase*—Kiva

Chapter 16: Financial Management and Securities Markets

- New boxed features describing current financial issues
- Updated short-term investment possibilities
- Updated U.S. corporate bond quotes
- New content on electronic markets





Acknowledgments



The twelfth edition of *Business Foundations: A Changing World* would not have been possible without the commitment, dedication, and patience of Jennifer Sawayda and Kelsey Reddick. Kelsey Reddick provided oversight for editing text content, and Jennifer Sawayda developed the cases, boxes, and the supplements. Anke Weekes, Executive Brand Manager, provided leadership and creativity in planning and implementing all aspects of the twelfth edition. Haley Burmeister, Product Developer, did an outstanding job of coordinating all aspects of the development and production process. Kathryn Wright was the Content Project Manager. Bruce Gin managed the technical aspects of Connect. Others important in this edition include Gabe Fedota (Marketing Manager) and Jessica Cuevas (Designer). Michael Hartline developed the Personal Career Plan in Appendix B. Vickie Bajtelsmit developed Bonus Chapter B on personal financial planning. Eric Sandberg of Interactive Learning assisted in developing the interactive exercises. Many others have assisted us with their helpful comments, recommendations, and support throughout this and previous editions. Thank you for all of your insight and feedback. We'd like to express our sincere thanks to the reviewers who helped us shape the twelfth edition. Your time and thoughtful feedback has helped us greatly make this another great revision:

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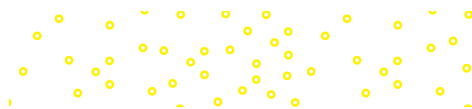


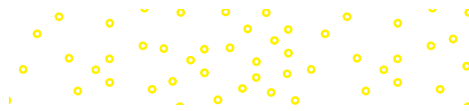
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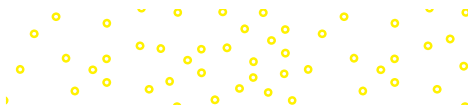


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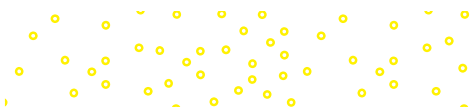
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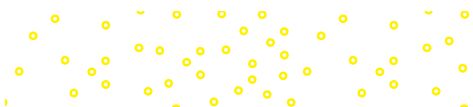
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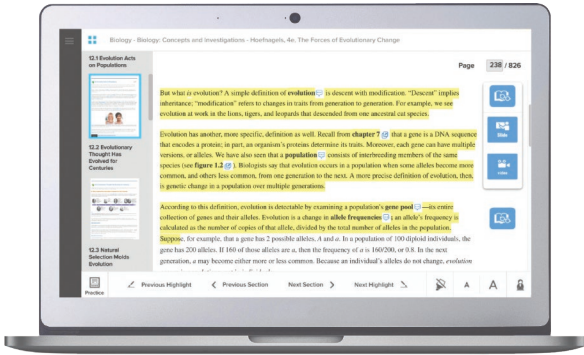
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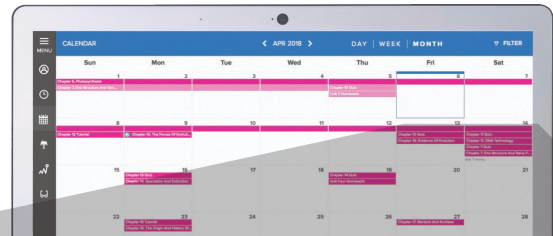
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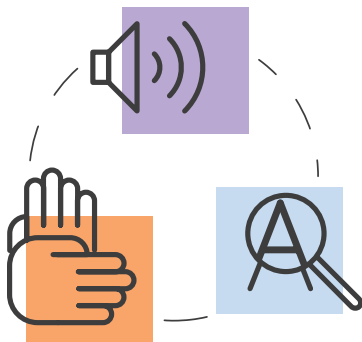
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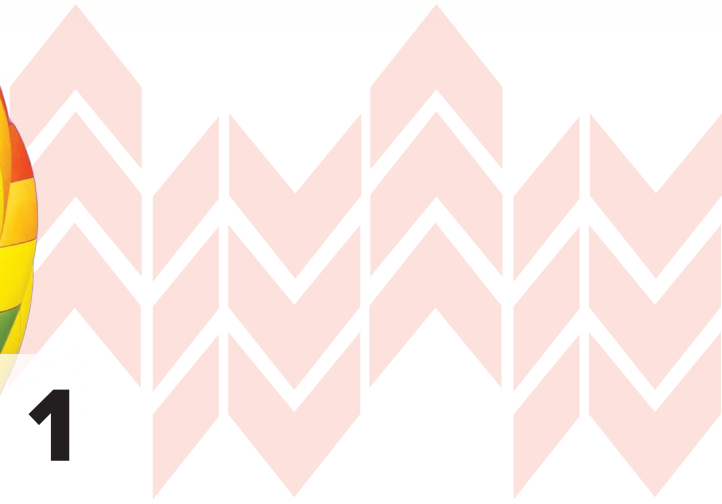


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PART 1



Business in a Changing World

- Chapter 1** The Dynamics of Business and Economics
- Chapter 2** Business Ethics and Social Responsibility
- Chapter 3** Business in a Borderless World



1

The Dynamics of Business and Economics



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Chapter Outline

- Introduction
- The Nature of Business
 - The Goal of Business*
 - The People and Activities of Business*
 - Why Study Business?*
- The Economic Foundations of Business
 - Economic Systems*
 - The Free-Enterprise System*
 - The Forces of Supply and Demand*
 - The Nature of Competition*
 - Economic Cycles and Productivity*
- The American Economy
 - The Importance of the American Economy*
 - A Brief History of the American Economy*
 - The Role of the Entrepreneur*
 - The Role of Government in the American Economy*
 - The Role of Ethics and Social Responsibility in Business*
- Can You Learn Business in a Classroom?

Learning Objectives

After reading this chapter, you will be able to:

- **LO 1-1** Define basic concepts such as business, product, profit, and economics.
- **LO 1-2** Identify the main participants and activities of business.
- **LO 1-3** Explain why studying business is important.
- **LO 1-4** Compare the four types of economic systems.
- **LO 1-5** Describe the role of supply, demand, and competition in a free-enterprise system.
- **LO 1-6** Specify why and how the health of the economy is measured.
- **LO 1-7** Outline the evolution of the American economy.
- **LO 1-8** Explain the role of the entrepreneur in the economy.
- **LO 1-9** Evaluate a small-business owner's situation and propose a course of action.

Enter the World of Business

Warren Buffett: The Oracle of Omaha

Warren Buffett did not change his life plans when he was rejected by Harvard. An avid reader with a photographic memory, he persevered. He researched other universities and discovered that Benjamin Graham, the author of the *The Intelligent Investor*, was a professor at Columbia University. He immediately enrolled there, was accepted, and became the star pupil and eventual partner of the famous Graham. After graduating, Buffett started a lucrative career, taking ownership in companies that he believed would do well in business.

Buffett's company, Berkshire Hathaway, has become a conglomerate with ownership in well-performing companies, including Geico, Heinz, Benjamin Moore, and See's Candies. Because Berkshire Hathaway owns companies in so many different industries, it reduces the risk that the failure of any one industry will significantly affect the company. Most importantly, Buffett believes in these firms and their value, a strategy that has made him one of the 10 richest people in the world.

Leading such a variety of companies comes with challenges as well. Companies require leaders who know the business and have specialized expertise—something nearly impossible for one person to do with so many different business areas. For this reason, Buffett depends on his managers to lead the various companies. He believes giving his managers autonomy allows them to achieve their highest performance. He wants his managers to “own” their job. By hiring knowledgeable managers and empowering them to run the companies as they believe best, Buffett is able to lead his vast business conglomerate successfully.

Buffett's organizational leadership philosophy includes focusing on the business. At his headquarters, 25 people run the organization. He encourages entrepreneurs “to focus on the business and not growing a large staff.” Buffett has earned the moniker “Oracle of Omaha” because he has lived there most of his life and many investors follow his advice and decisions.¹



LO 1-1

Define basic concepts such as business, product, profit, and economics.

business

individuals or organizations who try to earn a profit by providing products that satisfy people's needs.

product

a good or service with tangible and intangible characteristics that provide satisfaction and benefits.

profit

the difference between what it costs to make and sell a product and what a customer pays for it.

nonprofit organizations

organizations that may provide goods or services but do not have the fundamental purpose of earning profits.

Introduction

We begin our study of business in this chapter by examining the fundamentals of business and economics. First, we introduce the nature of business, including its goals, activities, and participants. Next, we describe the basics of economics and apply them to the U.S. economy. Finally, we establish a framework for studying business in this text.

The Nature of Business

A **business** tries to earn a profit by providing products that satisfy people's needs. The outcomes of its efforts are **products** that have both tangible and intangible characteristics that provide satisfaction and benefits. When you purchase a product, you are buying the benefits and satisfaction you think the product will provide. A Subway sandwich, for example, may be purchased to satisfy hunger, while a Honda Accord may be purchased to satisfy the need for transportation and the desire to present a certain image.

Most people associate the word *product* with tangible goods—an automobile, smartphone, jeans, or some other tangible item. However, a product can also be a service, which occurs when people or machines provide or process something of value to customers. Dry cleaning, a checkup by a doctor, a movie or sports event—these are examples of services. An Uber ride satisfies the need for transportation and is therefore a service. A product can also be an idea. Accountants and attorneys, for example, provide ideas for solving problems.

The Goal of Business

The primary goal of all businesses is to earn a **profit**, the difference between what it costs to make and sell a product and what a customer pays for it. In addition, a business has to pay for all expenses necessary to operate. If a company spends \$8 to produce, finance, promote, and distribute a product that it sells for \$10, the business earns a profit of \$2 on each product sold. Businesses have the right to keep and use their profits as they choose—within legal limits—because profit is the reward for their efforts and for the risks they take in providing products. Earning profits contributes to society by creating resources that support our social institutions and government. Businesses that create profits, pay taxes, and create jobs are the foundation of our economy. In addition, profits must be earned in a responsible manner. Not all organizations are businesses, however. **Nonprofit organizations**—such as National Public Radio (NPR), Habitat for Humanity, and other charities and social causes—do not have the fundamental purpose of earning profits, although they may provide goods or services and engage in fund-raising. They also utilize skills related to management, marketing, and finance. Profits earned by businesses support nonprofit organizations through donations from employees.

To earn a profit, a person or organization needs management skills to plan, organize, and control the activities of the business and to find and develop employees so that it can make products consumers will buy. A business also needs marketing expertise to learn what products consumers need and want and to develop, manufacture, price, promote, and distribute those products. Additionally, a business needs financial resources and skills to fund, maintain, and expand its operations. A business must cover the cost of labor, operate facilities, pay taxes, and provide management. Other challenges for businesspeople include abiding by laws and government regulations, and adapting to economic, technological, political, and social changes. Even nonprofit organizations engage in management, marketing, and finance activities to help reach their goals.



Sustainability is a growing concern among both consumers and businesses. Microsoft recently completed the single largest corporate purchase of solar energy ever in the United States.

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To achieve and maintain profitability, businesses have found that they must produce quality products, operate efficiently, and be socially responsible and ethical in dealing with customers, employees, investors, government regulators, and the community. Because these groups have a stake in the success and outcomes of a business, they are sometimes called **stakeholders**. Many businesses, for example, are concerned about how the production and distribution of their products affect the environment. New fuel requirements are forcing automakers to invest in smaller, lightweight cars. Electric vehicles may be a solution, but only about 1 percent of new car sales are plug-in-electric.² Other businesses are concerned with promoting science, engineering, and mathematics careers among women. Traditionally, these careers have been male dominated. A global survey found that when the number of men and women were evenly matched, the team was 23 percent more likely to have an increase in profit over teams dominated by one gender.³ Nonprofit organizations, such as the American Red Cross, use business activities to support natural-disaster victims, relief efforts, and a national blood supply.

stakeholders

groups that have a stake in the success and outcomes of a business.

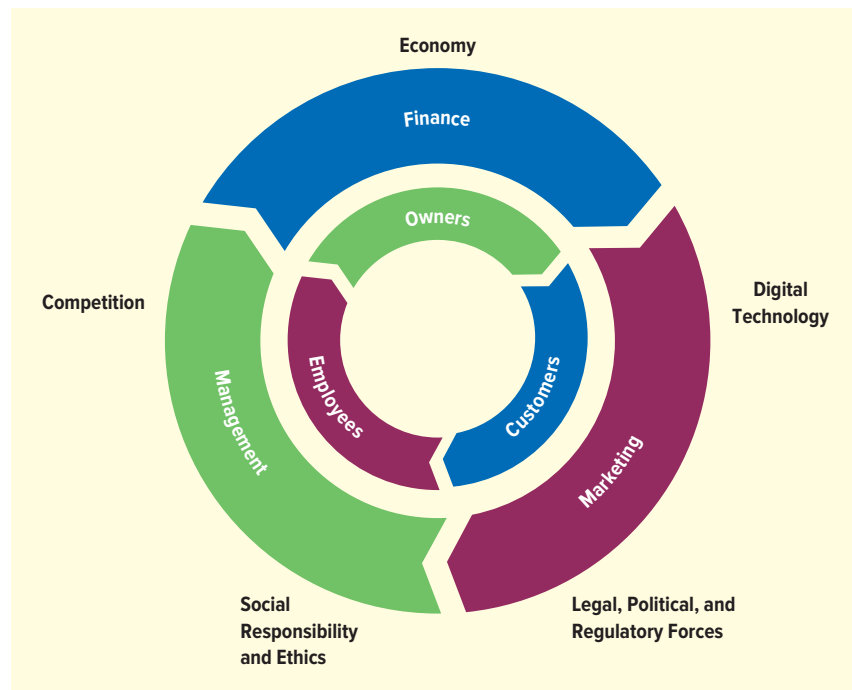
The People and Activities of Business

Figure 1.1 shows the people and activities involved in business. At the center of the figure are owners, employees, and customers; the outer circle includes the primary business activities—management, marketing, and finance. Owners have to put up resources—money or credit—to start a business. Employees are responsible for the work that goes on within a business. Owners can manage the business themselves or hire employees to accomplish this task. The president and chief executive officer (CEO) of Procter & Gamble, David S. Taylor, does not own P&G but is an employee who is responsible for managing all the other employees in a way that earns a profit for investors, who are the real owners. Finally, and most importantly, a business's major role is to satisfy the customers who buy its goods or services. Note also that forces beyond an organization's control—such as legal and regulatory forces, the economy, competition, technology, the political environment, and ethical and social concerns—all have an impact on the daily operations of businesses. You will learn more about these participants in business activities throughout this book. Next, we will examine the major activities of business.

LO 1-2

Identify the main participants and activities of business.

FIGURE 1.1
Overview of the Business
World

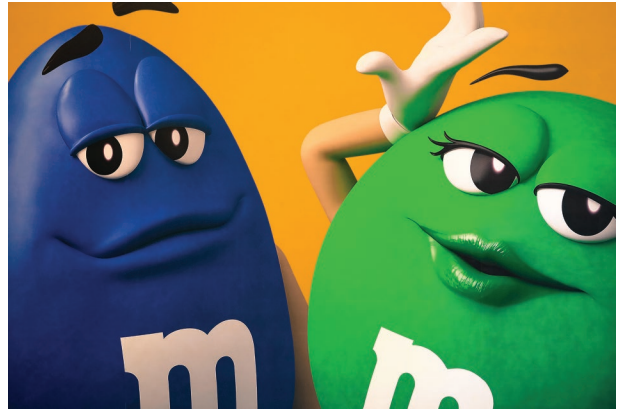


Management. Notice that in Figure 1.1, management and employees are in the same segment of the circle. This is because management involves developing plans, coordinating employees' actions to achieve the firm's goals, organizing people to work efficiently, and motivating them to achieve the business's goals. Management involves the functions of planning, organizing, leading, and controlling. Effective managers who are skilled in these functions display effective leadership, decision making, and delegation of work tasks. Management is also concerned with acquiring, developing, and using resources (including people) effectively and efficiently.

Operations is another element of management. Managers must oversee the firm's operations to ensure that resources are successfully transformed into goods and services. Although most people associate operations with the development of goods, operations management applies just as strongly to services. Managers at the Ritz-Carlton, for instance, are concerned with transforming resources such as employee actions and hotel amenities into a quality customer service experience. In essence, managers plan, organize, staff, and control the tasks required to carry out the work of the company or nonprofit organization. We take a closer look at management activities in Parts 3 and 4 of this text.

Marketing. Marketing and customers are in the same segment of Figure 1.1 because the focus of all marketing activities is satisfying customers. Marketing includes all the activities designed to provide goods and services that satisfy consumers' needs and wants. Marketers gather information and conduct research to determine what customers want. Using information gathered from marketing research, marketers plan and develop products and make decisions about how much to charge for their products and when and where to make them available. They also

analyze the marketing environment to understand changes in competition and consumers. The retail environment is changing based on competition from online retailing such as Amazon. This has caused some retail stores and malls to close.⁴ Marketing focuses on the four P's—product, price, place (or distribution), and promotion—also known as the marketing mix. Product management involves such key management decisions as product adoption, development, branding, and product positioning. Selecting the right price for the product is essential to the organization as it relates directly to profitability. Distribution is an important management concern because it involves making sure products are available to consumers in the right place at the right time. Supply chain management involves purchasing and logistics as well as operations to coordinate suppliers, producers, and distributors to create value for customers. Marketers use promotion—advertising, personal selling, sales promotion (coupons, games, sweepstakes, movie tie-ins), and publicity—to communicate the benefits and advantages of their products to consumers and to increase sales. We will examine marketing activities in Part 5 of this text.



M&M's uses humor in its advertising to promote the chocolate candies.

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Finance. Owners and finance are in the same part of Figure 1.1 because, although management and marketing have to deal with financial considerations, it is the primary responsibility of the owners to provide financial resources for the operation of the business. Moreover, the owners have the most to lose if the business fails to make a profit. Finance refers to all activities concerned with obtaining money and using it effectively. People who work as accountants, stockbrokers, investment advisors, or bankers are all part of the financial world. Owners sometimes have to borrow money from banks to get started or attract additional investors who become partners or stockholders. Owners of small businesses in particular often rely on bank loans for funding. Part 6 of this text discusses financial management.

Why Study Business?

Studying business can help you develop skills and acquire knowledge to prepare for your future career, regardless of whether you plan to work for a multinational *Fortune* 500 firm, start your own business, work for a government agency, or manage or volunteer at a nonprofit organization. The field of business offers a variety of interesting and challenging career opportunities throughout the world, such as marketing, human resources management, information technology, finance, production, accounting, data analytics, and many more.

Studying business can also help you better understand the many business activities that are necessary to provide satisfying goods and services. Most businesses charge a reasonable price for their products to ensure that they cover their production costs, pay their employees, provide their owners with a return on their investment, and perhaps give something back to their local communities and societies. Habitat for Humanity is an international nonprofit organization building housing for those who cannot afford simple, decent housing. Habitat operates like a business relying on volunteer labor and

LO 1-3

Explain why studying business is important.



Many companies engage in socially responsible behavior to give back to their communities. Bank of America partners with Habitat for Humanity to build homes for disadvantaged families.

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LO 1-4

Compare the four types of economic systems.

economics

the study of how resources are distributed for the production of goods and services within a social system.

natural resources

land, forests, minerals, water, and other things that are not made by people.

human resources (labor)

the physical and mental abilities that people use to produce goods and services.

financial resources (capital)

the funds used to acquire the natural and human resources needed to provide products.

economic system

a description of how a particular society distributes its resources to produce goods and services.

offers no-interest mortgages for repayment. Habitat ReStore is a retail unit that sells new and used building materials that are donated. The Home Depot Foundation has provided grants to remodel and renovate homes of U.S. military veterans.⁵ Thus, learning about business can help you become a well-informed consumer and member of society.

Business activities help generate the profits that are essential not only to individual businesses and local economies, but also to the health of the global economy. Without profits, businesses find it difficult, if not impossible, to buy more raw materials, hire more employees, attract more capital, and create additional products that, in turn, make more profits and fuel the world economy. Understanding how our free-enterprise economic system allocates resources and provides incentives for industry and the workplace is important to everyone.

The Economic Foundations of Business

It is useful to explore the economic environment in which business is conducted. In this section, we examine economic systems, the free-enterprise system, the concepts of supply and demand, and the role of competition. These concepts play important roles in determining how businesses operate in a particular society.

Economics is the study of how resources are distributed for the production of goods and services within a social system. You are already familiar with the types of resources available. Land, forests, minerals, water, and other things that are not made by people are **natural resources**. **Human resources**, or **labor**, refer to the physical and mental abilities that people use to produce goods and services. **Financial resources**, or **capital**, are the funds used to acquire the natural and human resources needed to provide products. These resources are related to the *factors of production*, consisting of land, labor, capital, and enterprise used to produce goods and services. The firm can also have intangible resources such as a good reputation for quality products or being socially responsible. The goal is to turn the factors of production and intangible resources into a competitive advantage.

Economic Systems

An **economic system** describes how a particular society distributes its resources to produce goods and services. A central issue of economics is how to fulfill an unlimited demand for goods and services in a world with a limited supply of resources. Different economic systems attempt to resolve this central issue in numerous ways, as we shall see.

Although economic systems handle the distribution of resources in different ways, all economic systems must address three important issues:

1. What goods and services, and how much of each, will satisfy consumers' needs?
2. How will goods and services be produced, who will produce them, and with what resources will they be produced?
3. How are the goods and services to be distributed to consumers?

	Communism	Socialism	Capitalism
Business ownership	Most businesses are owned and operated by the government.	The government owns and operates some basic industries; individuals own small businesses.	Individuals own and operate all businesses.
Competition	Government controls competition and the economy.	Restricted in basic industries; encouraged in small business.	Encouraged by market forces and government regulations.
Profits	Excess income goes to the government. The government supports social and economic institutions.	Profits earned by small businesses may be reinvested in the business; profits from government-owned industries go to the government.	Individuals and businesses are free to keep profits after paying taxes.
Product availability and price	Consumers have a limited choice of goods and services; prices are usually high.	Consumers have some choice of goods and services; prices are determined by supply and demand.	Consumers have a wide choice of goods and services; prices are determined by supply and demand.
Employment options	Little choice in choosing a career; most people work for government-owned industries or farms.	More choice of careers; many people work in government jobs.	Unlimited choice of careers.

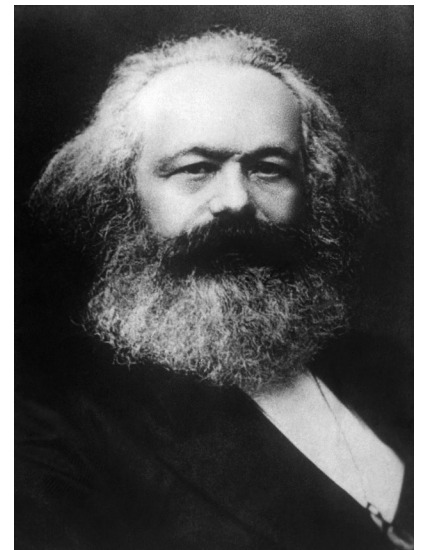
TABLE 1.1
Comparison of
Communism, Socialism,
and Capitalism

communism
first described by Karl Marx
as a society in which the
people, without regard to
class, own all the nation's
resources.

Communism, socialism, and capitalism, the basic economic systems found in the world today (Table 1.1), have fundamental differences in the way they address these issues. The factors of production in command economies are controlled by government planning. In many cases, the government owns or controls the production of goods and services. Communism and socialism are, therefore, considered command economies.

Communism. Karl Marx (1818–1883) first described **communism** as a society in which the people, without regard to class, own all the nation's resources. In his ideal political-economic system, everyone contributes according to ability and receives benefits according to need. In a communist economy, the people (through the government) own and operate all businesses and factors of production. Central government planning determines what goods and services satisfy citizens' needs, how the goods and services are produced, and how they are distributed. However, no true communist economy exists today that satisfies Marx's ideal.

On paper, communism appears to be efficient and equitable, producing less of a gap between rich and poor. In practice, however, communist economies have been marked by low standards of living, critical shortages of consumer goods, high prices, corruption, and little freedom. Russia, Poland, Hungary, and other eastern European nations have



Karl Marx, the founder of communism, described a society in which the people own all of the nation's resources and contribute according to their ability.

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