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business essentials

THIRTEENTH EDITION

Ronald J. Ebert

Ricky W. Griffin



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For Sutton, who may one day be in charge of everything!
—R. W. G.

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preface

Wearing the Hats

There's an old adage about people wearing different "hats." This usually means that people have different roles to play in different settings. For example, your roles may include student, child, spouse, partner, employee, friend, and/or parent. Each of these roles needs a different hat—when you play the role of a student, for example, you wear one hat, but when you go to your part-time job, you put on a different hat. From the perspective 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 others, and so on. You'll begin to see how to best wear this hat as you study 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 likely that one day other people will be working for you. You'll still have your own job responsibilities, of course. But you'll now also need to know 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 information about how you can best wear this hat, although the manager's hat 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, buy clothes at H&M, or stream a movie on Netflix, you're consuming products created by business. To wear this hat effectively, you need to know 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 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 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.

New to This Edition

Chapter Updates

All facts, figures, and examples have been updated throughout the book to reflect the most current information available. Similarly, all of the end-of-chapter material has been revised and updated. Integrated coverage of the 2020 COVID-19 pandemic and resulting economic fallout has also been integrated throughout the book. Detailed chapter-by-chapter updates are summarized below.

Chapter 1

- New Opening Case about Harley-Davidson
- New Entrepreneurship and New Ventures box about luxury items on a budget
- Finding a Better Way box updated
- All economic and financial data updated to the most current figures available

Chapter 2

- New Opening Case about EpiPens
- New Entrepreneurship and New Ventures box about the concept of living wages
- New and/or updated examples throughout
- Finding a Better Way box updated
- New Managing in Turbulent Times box about Honey Pot

Chapter 3

- Updated Opening Case about Netflix and Reed Hastings
- All data and related information about small businesses and business ownership updated to the most current figures available
- New Finding a Better Way box about the rise of the gig economy
- New Entrepreneurship and New Ventures box focusing on microfinance
- New Managing in Turbulent Times box about Shake Shack

Chapter 4

- New Opening Case about Jack Ma and Alibaba
- All data and related information about global business activity updated to the most current figures available
- Discussion of USMCA, the trade agreement between the United States, Mexico, and Canada that replaces NAFTA
- Updated discussion of Brexit
- Updated Finding a Better Way box about manufacturing in Mexico and China
- New Entrepreneurship and New Ventures box about women entrepreneurs in international business
- New Managing in Turbulent Times box about Brexit

Chapter 5

- Updated Opening Case about Alphabet and Google
- New Finding a Better Way box about managing the contingent workforce
- Updated Entrepreneurship and New Ventures box about Sal Kahn and Kahn Academy
- New Managing in Turbulent Times box about data breaches

Chapter 6

- New Opening Case about Spotify
- New Finding a Better Way box about Holacracy
- New Entrepreneurship and New Ventures box about flat organization structures
- Updated Managing in Turbulent Times box about Illinois Tool Works

Chapter 7

- Updated Opening Case about Cheesecake Factory
- Updated data and statistics about manufacturing and service sectors
- New Finding a Better Way box about social responsibility in the Patagonia supply chain
- Updated Entrepreneurship and New Ventures box about meal delivery services
- Updated Managing in Turbulent Times box about the airline industry

Chapter 8

- New Opening Case about Hilton Hotels
- Finding a Better Way box about Cirque du Soleil
- Updated Entrepreneurship and New Ventures box about entrepreneur Sophia Amoruso
- New Managing in Turbulent Times box about employee rights

Chapter 9

- Updated Opening Case about Brad Smith
- Updated Finding a Better Way box about Ruzwana Bashir, founder and CEO of Peek
- Updated Entrepreneurship and New Ventures box about John Paul DeJoria, a serial entrepreneur
- New Managing in Turbulent Times box about Howard Schultz, former CEO of Starbucks

Chapter 10

- Updated Opening Case about Wegman's
- New Finding a Better Way box about NerdWallet
- New Entrepreneurship and New Ventures box about the role of artificial intelligence in HR
- Updated diversity statistics and data

Chapter 11

- New Opening Case about IKEA
- New Finding a Better Way box about the Expensify Card
- Updated Entrepreneurship and New Ventures box about small-acreage farming
- New Managing in Turbulent Times box about Iconik, a Santa Fe coffee shop

Chapter 12

- New Opening Case about marketing luxury handbags
- New Finding a Better Way box about the State University of New York's efforts to provide free tuition for lower-income students
- New Entrepreneurship and New Ventures box about BedInABox
- Updated statistics about brand value
- Updated Managing in Turbulent Times box about Uber

Chapter 13

- Updated Opening Case about product delivery innovations
- Updated statistics and data about online retailing and advertising expenditures
- New Finding a Better Way box about trends in retailing
- Updated Entrepreneurship and New Ventures box about Algramo
- Updated Managing in Turbulent Times box about the role of automation and robotics in logistics

Chapter 14

- Entire chapter substantially revised to reflect the very latest research and practice related to information technology
- Revised Opening Case about information security, especially as it relates to individuals
- Extended discussion of data mining
- Extended discussion of enterprise resource planning
- Revised Finding a Better Way box about crowdsourcing
- Revised Entrepreneurship and New Ventures box about voice recognition technologies
- Revised Managing in Turbulent Times box about the role of IT in health care

Chapter 15

- Updated Opening Case about accounting scandals
- Revised Finding a Better Way box about the role of analytics in auditing
- Updated statistics and data for all in-text examples
- Updated examples about unethical and/or illegal accounting practices
- Updated Entrepreneurship and New Ventures box about how weak financial control systems can hurt businesses
- New Managing in Turbulent Times box about differences in accounting standards between the United States and other countries

Chapter 16

- Updated statistics and data about M-1, M-2, and interest rates
- New Finding a Better Way box about Venmo
- Updated Entrepreneurship and New Ventures box about BlackRock
- Updated Managing in Turbulent Times box about credit standards

Chapter 17

- Updated Opening Case about Fogo de Chão
- Updated information about global stock exchanges
- Updated information about trends in bull and bear markets
- Revised Finding a Better Way box about pension plans and retirement planning
- New Entrepreneurship and New Ventures box about crowdfunding
- Updated Managing in Turbulent Times box about technological innovations in stock trading

New Features

This edition also adds a new feature called Integrative Learning Portfolio found at the end of each part. The three elements in each of these features are intended to help integrate various topics across different chapters. One element is called *Crafting a Business Plan*. This element focuses on the various stages in developing a business plan. The second element is an integrative case focusing on Ford Motor Company. Over the course of all six parts of the book, this case illustrates all aspects of business as they relate to Ford. Finally, the third element is called *Finding Your Path*. This element looks at job market trends, starting salaries, and various career paths. In addition, they also each have an employability component that examines how students can improve their prospects for finding an attractive job.

Cases

As described above, all cases have been updated or replaced. Covering a wide variety of topics and organizations, including Spotify, Netflix, and Wegmans, these real-world cases introduce relatable topics that draw students into the content of each chapter.



Nothing Magical About Alibaba

In September 2019 on his birthday and coinciding with the 20th anniversary of Alibaba, Jack Ma announced his retirement in a tearful speech to 80,000 Alibaba employees, during which he took the stage in a rock star costume, complete with wig and guitar. The path to that stage was a circuitous one. It took Ma Yun, aka Jack Ma, 4 years to pass the stringent entrance exams for college in China before he received a degree in English. He worked his way through graduate school, teaching English, to earn a degree in business but couldn't land a job in the tough Chinese job market. In the mid-1990s, a trip to the United States opened his eyes to the opportunities emerging on the Internet. Back in China, he started building rudimentary websites for Chinese companies. Two failed business attempts later, 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

Busy Chinese consumers rely on a variety of marketplaces for buying and selling goods. These include both traditional "physical" markets as well as online markets like Alibaba.

Photo: Bloomberg/Alamy/Think Photo

Current Events

The author has added new coverage of the COVID-19 pandemic and its economic impact, social unrest, the withdrawal of Great Britain from the European Union, the increasing diversity of the labor force, the continuing impact of social media, trends in information technology, and fluctuations in the U.S. economy. He has also added coverage of emerging new employment relationships. 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!

questions & exercises

QUESTIONS FOR REVIEW

- 4-1. What are the advantages and disadvantages of globalization? Give examples.
- 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.

QUESTIONS FOR ANALYSIS

- 4-5. Make a list of five things you own, such as an item of furniture, a vehicle, electronics, and other consumer goods, making sure that each one was made in a different country. Develop a hypothesis about why each product was made in that particular country.
- 4-6. Choose a current trade agreement or alliance and describe current events and their effect on international trade between the parties.
- 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. Identify a manufactured product (car, bike, computer, etc.) you think is made in the United States. Do some research and try to determine where the component parts are made. How much of your chosen product is actually made in the United States? List the parts and their countries of origin and identify the competitive advantage that you believe each place holds.
- 4-10. China is one of the fastest-growing markets in the world. Use Web or database research to uncover how to best describe China according to the five cultural dimensions. Cite the sources for your information.

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.

“What’s in It for Me?”

Students sometimes question the value of a particular major, class, or textbook. We have worked tirelessly to make sure that you see the value of this class and book. To help with this, each chapter opens with a special feature we call “What’s in It for Me?” This feature is intended to reinforce the notion of different roles, as described above. While each of the various roles—employee, employer, boss, consumer, and investor—are all important, this feature highlights some of the key implications for the different roles for each chapter.

Applied Learning Opportunities Throughout Business Cases and Features

Managing in Turbulent Times

- Students learn from disappointments, challenges, and opportunities real companies face.
- New features look at the effects of the COVID-19 pandemic, leadership in a virtual world, and workplace bullying.

managing in turbulent times

Brexit 2020

The European Union was formed after World War II to foster economic cooperation. Being part of the single market gave businesses easy access to all 500 million customers in the member countries and allowed 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 United States are free to move from state to state. Even so, the British people had never been fully invested in the EU.

In 2015, as part of his campaign for reelection, British Prime Minister David Cameron promised to put a referendum on the ballot asking voters to decide if they wanted to exit the European Union (EU). The outcome he hoped for was a mandate from the public to remain with the EU, but on the day of the vote, with a 72 percent turnout, 51.9 percent of voters opted to leave. The pivotal issues turned out to be more sociological than economic: mostly a British desire for sovereignty and a fear of immigrants pouring into the country. Cameron, who had relied on the benefits of belonging to the EU as the cornerstone of his administration, resigned his post.

In July 2016, the Queen appointed Home Secretary Theresa May as prime minister, and the actual transition, now called Brexit, was left to her. After 3 years of struggling to broker a deal between the United Kingdom and the other members of the EU that would be acceptable to all parties, May resigned and the PM spot went to Boris Johnson. On January 31, 2020, the United Kingdom finally started its 11-month transition out of the EU.



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Meanwhile, in 2019, the Trump administration renegotiated the long-standing North American Free Trade Agreement and rebranded it the United States–Mexico–Canada Agreement (USMCA). When NAFTA took effect in 1994, it transformed the U.S. economy. It opened opportunities for businesses to seek inexpensive labor. It also reduced prices for consumers and created open access to products (particularly produce) from all three economies. The 2019 modification requires Mexico to ensure higher wages and increased legal protections for workers, and also includes provisions that increase copyright, patent, and trademark protections to make them more consistent and compatible with U.S. practices.

As the economic and political climates continue to change, we see traditional, long-standing relationships, treaties, and trade organizations struggling to keep up, and the process is not always neat and tidy, or even logical.

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

Car Wars: China Versus 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. Wages in China were roughly one-third the wages in Mexico, and there was 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 more recent years, the situation started to tilt back in Mexico’s favor. As China’s economy flourished, its labor costs crept higher and higher, and when U.S. manufacturers factored in shipping costs, producing auto parts in Mexico once again became more cost effective. Time differences between the United States and China also make phone and video conferencing difficult. In addition, U.S. companies have taken flak for China’s business practices. Companies are often heavily subsidized by the government, and low-paid workers are not offered the same benefits and protections as workers



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in the United States, causing what many deem to be an uneven playing field that takes jobs away from U.S. workers.

Because of these socioeconomic shifts, Mexico made enormous gains in the automobile sector. Companies such as Nissan, Honda, Volkswagen, and Mazda invested billions of dollars in Mexican companies, and by 2019 the country as a whole was producing about 350,000 units a month, rivaling production by China, even as the U.S. auto market was in a slump from too much inventory. By December, exports had tanked, but just 2 months later, in early 2020, when COVID-19 all but shut down China’s capacity to produce parts, Japanese and U.S. manufacturers turned full force to Mexico. So, the battle for competitive advantage continues, and the back-and-forth nature of the industry and its resultant ups and downs will likely continue for the foreseeable future.

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

Women Entrepreneurs Grow Global

In 2008, Laurel Delaney started writing a blog, *Women Entrepreneurs Grow Global*, or *wegg*, focused on helping women entrepreneurs expand their businesses internationally. Delaney knew through personal experience that women-owned exporting businesses faced unique challenges. Inspired by an International Trade Centre report that “women-owned SMEs that export tend to earn more, pay more, employ more people and be more productive than firms that only operate domestically,” Delaney aimed to create a one-stop-shop resource where women could easily access educational resources.

In 2015, after observing that many of her clients were newer businesses with little extra funding for continuing education or start-ups, Delaney incorporated as a 501(c)(3) to take advantage of grant and sponsorship funding. She expanded her online reach with different platforms like webinars and social media with catchy names like *wegginars* and Twitter *weggchats*, and began to offer one-to-one peer mentoring.

By early 2020, *wegg* had served over 1800 women business owners and entrepreneurs. Its services now include access to specialists who provide tailored support and education and a VIP program for women CEOs to access operational, legal, and strategic support. Though primarily serving its clients online, allowing them to access support from anywhere, *wegg* also offers meetups and in-person mentoring.



Laurel Delaney/WEGG

Laurel Delaney has helped over 1,800 women entrepreneurs expand into international markets.

Beyond all the practical knowledge provided by *wegg*, Delaney stays focused on her original goal: “I wanted to change the landscape for women from being risk-averse to having confidence to go for it—with the appropriate support.”⁹

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.

In addition, this edition adds an all-new feature called *Finding Your Path*. Found at the end of each part of the book, these features look at job market trends, starting salaries, and various career paths. In addition, they also each have an employability component that examines how students can improve their prospects for finding an attractive job.

For more information and resources, visit www.pearson.com

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.

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I would also like to welcome Joe Cooke to the team. Joe is a professor at Santa Fe 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. In addition, my colleague at Texas A&M, Brad Wesner, helped with the substantial revision of Chapter 14. 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, I would like to acknowledge my family. Their contributions to my work are far too extensive and personal to list. Suffice it to say that my wife, Glenda, and our children and grandchildren are the bedrock of my life. I am 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
 2020

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 miss working with you but will always treasure our friendship.

about the authors

Ronald J. Ebert is Emeritus Professor at the University of Missouri–Columbia. Professor Ebert’s work has been based on more than thirty years of teaching experience at such schools as Sinclair College, University of Washington, University of Missouri, Lucian Blaga University of Sibiu (Romania), and Consortium International University (Italy). His consulting alliances have included such firms as Mobay Corporation, Kraft Foods, Oscar Mayer, Atlas Powder, and John Deere. He has designed and conducted management development programs for such diverse clients as the American Public Power Association, the U.S. Savings and Loan League, and the Central Missouri Manufacturing Training Consortium.

His experience as a practitioner 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. Professor Ebert retired from his role as co-author of this book after the publication of its 11th edition, but his imprint and myriad contributions can still be found in many different places throughout the text.



Ricky W. 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*.

Professor Griffin has led executive development programs and/or consulted with such firms as Halliburton, Concho, KBR, Ascend, Shell Oil Company, Six Flags, and WinCo. He has also delivered invited presentations in England, Italy, France, Switzerland, Poland, Saudi Arabia, South Africa, Hong Kong, and Australia. He has also served as a consulting expert in numerous legal cases involving workplace violence and bullying and general human resource and talent management practices.

In addition, Professor Griffin has 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 \$1,500,000 in external 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.



The U.S. Business Environment

chapter 1

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PART 1 | THE CONTEMPORARY BUSINESS WORLD



learning objectives

After reading this chapter, you should be able to:

- 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.
- 1-2 Describe** the different types of global economic systems according to the means by which they control the factors of production.
- 1-3 Show** how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.
- 1-4 Explain** the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.
- 1-5 Learn** about the skills you will gain through this text.

what's in it for me?

As you will see in our Opening Case, political, technological, cultural, and economic forces have created enormous challenges for Harley-Davidson, Inc., throughout the years. 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.





Reinventing an American Icon

In 1903, at about the same time Henry Ford was assembling his first factory-produced automobile in Detroit, Michigan, William S. Harley and Arthur Davidson were tinkering in a little wooden shed in Milwaukee, Wisconsin, with an idea that Harley had—to put a small gasoline engine on a bicycle. They had gathered some parts, but it took Arthur's brother, Walter, a machinist, to put it all together. However, much like Ford's first attempts to design a production automobile, the first Harley-Davidson motorcycle was a disappointment. The tiny 7-cubic-inch engine couldn't even make the bike go up a small hill. Still enamored with

the idea of putting a motor on two wheels, the three men designed a bigger engine (almost 25 cubic inches), put it on a sturdier frame, and sold one bike that first year to a school friend.

In 1905, they produced a total of five bikes and sold one through a dealership in Chicago and, taking a page from Ford's playbook, started racing their bikes against those of other budding manufacturers in physical as well as economic competition. In a 15-mile race in Chicago in 1905, their new design took first place, with an average speed of 47 miles per hour.

By 1906, they were producing about 50 bikes, and in 1907, William Davidson, Arthur's brother, joined the company, and they incorporated as Harley-Davidson, Inc., splitting the stock four ways. Ownership of the company would stay in those families for the next 60 years.

Over the next few years, the company ramped up production and continued to innovate. In 1909, it introduced its first V-twin engine—a 39.5-cubic-inch monster that delivered all of 7 horsepower. Because of the rather awkward 45-degree angle of the two cylinders, the bike had a unique rumble.

World War I gave Harley a boost as the military bought over 20,000 bikes. By 1920, Harley-Davidson was the biggest motorcycle manufacturer in the world, with over 2,000 dealerships in 67 countries. By that time, the V-twin engine had grown to a respectable 45 cubic inches (almost 750 cubic centimeters).

Disaster struck in the form of the Great Depression. In 1929, Harley sales had reached 21,000 bikes but dropped to 3,703 by 1933. Because of its solid reputation, its prominence in the marketplace, and some astute diversification by management, Harley was one of only two motorcycle manufacturers that survived the Great Depression. When World War II shifted motorcycle production back to military use, Harley was ready.

The other surviving motorcycle manufacturer, Indian, didn't fare as well. When it closed its doors in 1954, Harley-Davidson emerged as the only U.S. manufacturer. That same year, Harley introduced the first "Sportster," with its 55-cubic-inch engine and unique styling, and the returning soldiers who had been exposed to the bikes overseas created a huge domestic market. But the halcyon days wouldn't last.

Harley-Davidson had licensed the rights to build its motorcycles in Japan to Rikuo in the late thirties, before the war, a move that jump-started the Japanese motorcycle industry, and by the late sixties Japanese bikes were flooding the marketplace. At the

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same time, Harley was suffering from aging and outdated equipment and high manufacturing costs. In an effort to stave off bankruptcy by generating cash from new investors, the majority shareholders of Harley (descendants of the founders) took the company public but retained 53 percent of the voting shares.

Meanwhile, the U.S. business environment was going through a phase of conglomeration—big companies like Bangor Punta were buying up smaller companies and often pillaging them for cash or wringing short-term profits from them and then leaving the empty shell.

It was Bangor Punta that tendered a generous offer for Harley shares in an attempt to buy up a controlling interest in the company. Harley President William Davidson urged stockholders not to sell, but Bangor kept sweetening the deal, and by December 1969, it owned over 16 percent of the outstanding shares and the hostile takeover looked imminent. Desperate to save the brand from being gutted, the majority shareholders swung a deal with a different corporate buyer they felt would better serve the firm's interests.

American Machine and Foundry (AMF) had started out about the same time as Ford and Harley, making cigarette-manufacturing machines, but over the years it had diversified into sailboats, bowling alleys, and other sports equipment. Unlike the struggling Harley-Davidson, AMF had cash to burn and was looking to buy up sports-related companies. AMF promised to breathe new life into the ailing motorcycle manufacturer and invest much-needed capital.

Unfortunately, after the takeover AMF quickly broke its promise. Instead of investing capital, the firm focused on short-term profits by reducing quality, laying off workers, and cutting corners wherever possible. In 1981, with the company once again heading toward bankruptcy, 13 Harley-Davidson senior executives, led by William Davidson, rallied together and bought the company back from AMF for \$80 million.

Shortly after regaining control of the company, Harley successfully lobbied President Ronald Reagan into imposing a 45 percent import tariff on bikes larger than 700 cc, effectively eliminating any competition from abroad. But the writing was on the wall—the baby boomers who had been the bread-and-butter market for the big American bikes were already starting to age out, and Harley was struggling to find new markets. In what was seen as a bold move, Harley petitioned the International Trade Commission to drop the import tariff on big bikes, presumably to get younger people riding and increase overall ridership. Also, in 1986, Harley-Davidson, Inc., rejoined the New York Stock Exchange (NYSE: HOG).

The 1990s saw ever-increasing competition from Japan, and American companies like Indian reemerged and gained a foothold in the market. In an effort to combat the changing marketplace, Harley pursued a new batch of innovations, such as the Softail, as well as joint ventures, such as the Buell, and saw some success. In fact, despite the intense competition, by 1998, demand for Harley-Davidson motorcycles exceeded supply, driving up prices, profits, and the stock price.

Even so, as predicted, the core demographic was aging and had significantly slowed down in new bike purchases. To create new markets and attract new riders, Harley has introduced a novel line of sport bikes and other entry-level cruisers, along with the electric LiveWire and the Pan America adventure bike. Younger riders are opting for smaller bikes and scooters, and current trade wars are hurting both domestic and international sales, but today's Road King, a staple of the Harley line, weighs in at 800 pounds and delivers almost 90 horsepower, with an engine bigger than that of most compact cars. In 2019, sales declined for the 5th year in a row. In February 2020, CEO Matt Levatich, who had been leading the company since 2015, stepped down. Now, once again, the iconic American company is facing a looming crisis. But it has come back from the brink before. Maybe that's part of the allure of the brand to its aficionados both in the United States and abroad—its ability to beat seemingly insurmountable odds. (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.)

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.

Business organization that provides goods or services to earn profits

Profits difference between a business's revenues and its expenses

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 Nestlé? Are you reminded of smaller firms down the street, 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 around the corner?

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 state universities, hospitals, and government agencies—that run in much the same way but that generally don't seek profits.¹

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 ExxonMobil and BP have seen their profits decline. However, food distributors like Sysco and delivery services such as FedEx saw their expenses drop due to lower fuel costs 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

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*.

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

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 supplier to other retailers through its Free People division. It has established a clear identity for

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



FIGURE 1.1 Dimensions of the External Environment

finding a better way

Saving the World One Camp Stove at a Time

Unsafe drinking water and household air pollution are major causes of illness and death around the world. In Rwanda, where most people living in rural areas cook their meals on open stoves, smoke and fumes from fuel such as wood and charcoal have been linked to pneumonia, low birth weight, and impaired development in children. The Rwandan government has tried for years to address this issue, along with the lack of safe drinking water, but the efforts lacked financial support.

As a general rule, we expect a free market system to react to consumer needs, but that doesn't always happen. Business seeks profit, and not all consumer needs are profitable, such as clean-burning stoves for Ugandan families. Nonprofit organizations like the Red Cross work to serve the public good or solve social problems, but those organizations can't supply every demand. Enter the B Corporation (B Corp).

B Corps are for-profit businesses that volunteer to be graded by the nonprofit B Lab each year to ensure they're meeting the highest standards of social and environmental performance, public transparency, and legal accountability. Corporate performance is measured not only by profits or growth in stock price but also by the organization's impact on society and the environment. EcoZoom started out as a successful B Corp.

After a successful career in the transportation industry, EcoZoom founder Ben West went back to school 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, the nonprofit didn't know how to get the product to the market. West decided he could do something about that, and so he started his company in 2011. Now, EcoZoom manufactures stoves in China, and although it sells them in the United States for camping and other outdoor uses, its primary market is developing countries, such as Rwanda, 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.



EcoZoom

In addition to reducing air pollution inside and around the home, EcoZoom's low-emission, energy-efficient cookstoves reduce fuel use and cooking time, giving people more time to spend with their families and on other tasks, such as maintaining their gardens. The stoves can burn traditional biomass fuels, such as corn cobs 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 makes a huge difference.

EcoZoom is providing stoves to a host of other African countries and is expanding distribution globally to wherever it is most needed. As EcoZoom's mission states: "We believe that household products should be healthy, efficient and eco-friendly for everyone, regardless of socio-economic status. A global social enterprise, our products are changing lives in 23 countries worldwide." Interestingly, however, EcoZoom recently dropped its status as a B Corp because of the high annual fee required to participate. The firm remains committed, though, to its original mission and continues to work to make the world a better place.²

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 international forces that affect a business

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 the effects of the 2020 COVID-19 pandemic in China began to spread, travel in that country plummeted. As a result, demand for fuel dropped in China, creating a surplus in other countries

and leading to a fall in retail gasoline prices. Likewise, international air travel plunged as the virus spread around the globe. 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 customers in 133 countries. But as it has expanded into other parts of the world, it has to contend with different languages, more diverse cultures, different forms of technology, different currencies, and many other factors. Complicating things further, many of its suppliers are foreign companies.

Technological Environment The **technological environment** generally includes all the ways by which firms create value for their constituents. Technology includes human knowledge, work methods, physical equipment, electronics and telecommunications, and various processing systems that are used to perform business activities. For instance, Urban Outfitters relies on a sophisticated information system that tracks sales and inventory levels to be highly responsive to its customers. The firm also enjoys considerable success with its e-commerce websites. Urban Outfitters has developed a strong market presence in Japan, for example, even though it has no traditional brick-and-mortar retail outlets in that country. As the COVID-19 pandemic swept across the United States, many universities and schools closed but technology was used to allow most classes to continue online.

Technological Environment *all the ways by which firms create value for their constituents*

Political-Legal Environment The **political-legal environment** reflects the relationship between business and government, usually in the form of government regulation of business. This environment is important for several reasons. First, the legal system defines in part what an organization can and cannot do. For instance, Urban Outfitters is subject to a variety of political and legal forces, including product identification laws, employee hiring restrictions, and local zoning requirements. Likewise, various government agencies regulate important activities, such as advertising practices, safety and health considerations, and acceptable standards of business conduct. Pro- or antibusiness sentiment in government and political stability are also important considerations, especially for international firms. For instance, shortly after President Barack Obama first took office, a number of new regulations were imposed on businesses. Among other things, he signed legislation that imposed new restrictions on lobbying and on political action committees (these regulations are discussed in Chapter 2). But after Donald Trump was elected president in 2016, he pledged to reduce what he called excessive government regulation. Carrying through on this promise, he did cut or reduce several regulations, most of which involved banking and environmental protection.

Political-Legal Environment *the relationship between business and government*

Sociocultural Environment The **sociocultural environment** includes the customs, mores, values, and demographic characteristics of the society in which an organization functions. Sociocultural processes also determine the goods and services, as well as the standards of business conduct, that a society is likely to value and accept. For example, Urban Outfitters focuses its marketing efforts on younger consumers attracted to the firm's contemporary and sometimes irreverent products. But sometimes the company takes things too far. A few years ago, Urban Outfitters introduced a Monopoly-like game called Ghettopoly. The company received a lot of unfavorable publicity about the game, based on critics' charges that it made light of poverty and other social problems. In response, Urban Outfitters pulled it from shelves and discontinued its sale. But the firm continues to push the limits.³

Sociocultural Environment *the customs, mores, values, and demographic characteristics of the society in which an organization functions*

Economic Environment The **economic environment** refers to relevant conditions that exist in the economic system in which a company operates. For example, if an economy is doing well enough that most people have jobs and wages are high,

Economic Environment *relevant conditions that exist in the economic system in which a company operates*