

Foundations of
BUSINESS

Pride • Hughes • Kapoor

7th Edition

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BUSINESS

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LETTER FROM THE AUTHORS

Dear Business Students,

Take a moment and imagine what your life will be like in 5, 10, or 20 years from now. For some, life becomes a joyous experience that brings the rewards of a life well lived. For others, life doesn't turn out quite the way you imagined. Often, the difference is the decisions you make as you go through life. Those decisions can make the difference—a real difference—in the type of life you experience. Regardless of your personal goals, we have written this text with one purpose: to provide the information you need to make decisions that will help you succeed in today's business world and in your personal life.

This new edition of *Foundations of Business* is packed with information that can help you reach your personal goals and launch a successful career. We worked hard to make sure there's something in every chapter to help you understand the world of business and become a better employee, a more informed consumer, and, if it's your dream, a successful business owner. Each chapter contains an opening case and an end-of-chapter case that showcase how companies like Walmart, Google, Whole Foods, S.C. Johnson, Southwest Airlines, and Taco Bell tackle real-world problems. In addition, each chapter includes special box features that provide information about careers, social responsibility, technology, environmental issues, and entrepreneurship.

We also realize that students learn in different ways. Information and feedback from students helped guide the development of different activities that can help you learn the important concepts needed for a successful career. We're especially proud of the following learning activities in the text and its website:

- Concept Checks at the end of major sections in every chapter
- Chapter Summaries and Discussion Questions
- Social Media Exercises
- Building Team Exercises
- Career Research Activities
- Student PowerPoints®
- Learning activities and assessment material in the MindTap learning system that accompanies the text

As authors, we believe that success is measured not only by the grade you receive in this course, but also by how you use the information in this text to build a foundation for a better life. It's time! Take the next step and read Chapter 1 to see how the new edition of *Foundations of Business* can help you learn about business and enjoy success in not only your career, but also your life.

Sincerely,

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*To Nancy, Allen, Carmen, Gracie, Marie, Mike, Ashley, Charlie, J.R.,
Anderson, and Maggie Pride*

To my wife Robin and the memory of my mother Barbara Hughes

*To my wife Theresa; my children Karen, Kathryn, and Dave; and in
memory of my parents Ram and Sheela Kapoor*

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PART 1

The Environment of Business

Chapter 1

Exploring the World of Business and Economics


Chapter 2

Ethics and Social Responsibility in Business

Chapter 3

Global Business

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In this part of *Foundations of Business*, we begin by examining the world of business and how the economy affects your life. Next, we discuss ethical and social responsibility issues that affect business firms and our society. Then we explore the increasing importance of international business.

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Exploring the World of Business and Economics

Why Should You Care?

Studying business will help you choose a career, become a successful employee or manager, start your own business, and become a more informed consumer and better investor.

Learning Objectives

Once you complete this chapter, you will be able to:

- 1-1** Discuss what you must do to be successful in today's business world.
- 1-2** Identify the potential risks and rewards of business.
- 1-3** Describe the two types of economic systems: capitalism and command economy.
- 1-4** Identify the ways to measure economic performance.
- 1-5** Examine the different phases in the typical business cycle.
- 1-6** Outline the four types of competition.
- 1-7** Summarize the development of American business and the challenges that businesses and society will encounter in the future.

Inside Business

Tesla Races Ahead of the Competition

Today Tesla is a household name around the world. Because the company is now the leader in electric vehicles (EVs), it has also become one of the most valuable companies in the world. Although Tesla is relatively young compared to General Motors, Ford, Toyota, and other competitors, the car manufacturer's commitment to innovation and sustainability has propelled it to the front of the pack. Even though Toyota is much larger than Tesla in terms of sales, Tesla's market capitalization has surpassed the Japanese carmaker, demonstrating that investors see a bright future ahead for the electric car company. For any company traded on the stock exchange, market capitalization is calculated by multiplying the current market value for a share of the company's stock by the total number of shares that have been issued. At the time of publication, Tesla was valued at almost \$800 billion—not bad for a relative newcomer to the automobile industry.

While Tesla didn't invent the electric car, it set the standard for what an EV should be. The Tesla Roadster was the first highway-legal production vehicle that used lithium-ion batteries,

giving it a longer driving range than other EVs on the market. With superior distance and speed and longer battery life, Tesla managed to make its products appealing to a wide range of customers. As Tesla makes record sales and expands globally, it's clear the company's early bet on EVs has paid off.

Tesla's robust supply chain has driven down battery costs, making it even more challenging for other manufacturers to catch up. Even though other automakers including BMW, Ford, General Motors, Mercedes Benz, Nissan, Volkswagen, and some companies you probably don't recognize are investing heavily in EVs, a Tesla automobile is the one that customers want. It's so popular that customers often have to wait for delivery for popular models. While Tesla does face competition from traditional automakers as well as electric car startups, the difference could be that other companies still think of EVs as an afterthought.¹

Did you know?

Tesla's market capitalization is worth more than Ford and General Motors combined.

Wow! What a challenging world we live in. Just for a moment, think about how the world has changed in the last few years. The United States has experienced a pandemic, non-essential businesses were closed in many states, the unemployment rate increased, and the stock market took a nosedive and then recovered all in a short period of time. Even though the economy has shown signs of improvement, there are still problems and many people worry about the future of the nation and the economy. Simply put, many individuals, business leaders, and politicians worry that the future of the nation's economy could be a bumpy road that leads to another recession.

Regardless of the current state of the economy, keep in mind that our economy continues to adapt and change to meet the challenges of an ever-changing world and to provide opportunities for those who want to achieve success. Our economic system also provides an amazing amount of freedom that allows businesses like Tesla—the company profiled in the Inside Business opening case for this chapter—to adapt to satisfy the needs of customers. To meet increased consumer demands for an electric automobile, the company's managers, engineers, and employees were able to design and build an automobile that consumers really wanted. After initial success, Tesla—a newcomer in the automobile industry—continues to innovate and create new models with self-driving capability. As a result, the company is now profitable and is one of the most valuable companies in the world.

Within certain limits, imposed mainly to ensure public safety, the owners of a business can produce any legal good or service they choose and attempt to sell it at the price they set. This system of business, in which individuals decide what to produce,

how to produce it, and at what price to sell it, is called **free enterprise**. Our free-enterprise system ensures, for example, that Amazon.com can sell everything from books, televisions, and toys to computers, cameras, and clothing. Our system gives Amazon's owners and stockholders the right to make a profit from the company's success. It gives Amazon's management the right to compete with bookstore rival Barnes & Noble and retailers Walmart, Best Buy, and Macy's. It also gives you—the consumer—the right to choose.

In this chapter, we look briefly at what business is and how it became that way. First, we discuss what you must do to be successful in the world of business and explore some important reasons for studying business. Second, we define *business*, noting how business organizations satisfy their customers' needs and earn profits. Third, we examine how capitalism and command economies answer four basic economic questions. Next, our focus shifts to how the nations of the world measure economic performance, the phases in a typical business cycle, and the four types of competitive situations. Finally, we look at the events that helped shape today's business system, the current business environment, and the challenges that businesses face.

1-1 Your Future in the Changing World of Business

Learning Objective

1-1 Discuss what you must do to be successful in today's business world.

The key word in this heading is *changing*. When faced with the COVID-19 pandemic that raced through the world, small business owners, employees, managers, and investors began to ask the question: What effect will non-essential business closures and record high unemployment rates have on the economy? More specifically, many people wanted to know, how does this affect me both now and in the future? Although this is a fair question, it is difficult to answer. For an employee just starting a career or for a college student preparing for a career, the question is even more difficult to answer. Now, as the United States and the world adjust to life after the COVID-19 pandemic and the economy shows signs of recovery, there are opportunities out there for people who are willing to work hard, continue to learn, and possess the ability to adapt to change. Let's begin this course with three basic concepts.

- What do you want?
- Why do you want it?
- Write it down!

Joe Dudley, one of the world's most respected Black business owners, offers the preceding advice to anyone who wants to succeed in business. His advice can help you achieve success. What is so amazing about Dudley's success is that he started a manufacturing business in his own kitchen, with his wife and children serving as the new firm's only employees. He went on to develop his own line of haircare and cosmetic products sold directly to cosmetologists, barbers, beauty schools, and consumers in the United States and in foreign countries. Today, after a lot of hard work and a strong work ethic, Mr. Dudley has built a well-recognized and respected company in the competitive cosmetics industry. He is not only a successful business owner but also a winner of the Horatio Alger Award—an award given to outstanding individuals who have succeeded in the face of adversity.²

Although many people would say that Joe Dudley was just lucky or happened to be in the right place at the right time, the truth is that he became a success because he had a dream and worked to turn the dream into a reality. He would be the first to tell you that you have the same opportunities he had. According to Mr. Dudley, "Success is a journey, not just a destination."³

Whether you want to obtain part-time employment to pay college and living expenses, begin your career as a full-time employee, or start a business, you must

free enterprise the system of business in which individuals are free to decide what to produce, how to produce it, and at what price to sell it

bring something to the table that makes you different from the next person. Employers and our economic system are more demanding than ever before. Ask yourself: What can I do that will make employers want to pay me a salary? What skills do I have that employers need? With these two questions in mind, we begin the next section with another basic question: Why study business?

1-1a Why Study Business?

The potential benefits of higher education are enormous. To begin with, there are economic benefits. Over their lifetimes, college graduates on average earn much more than high school graduates. Although lifetime earnings are substantially higher for college graduates, so are annual income amounts (refer to Figure 1-1). In addition to higher income, you will find at least four compelling reasons for studying business.

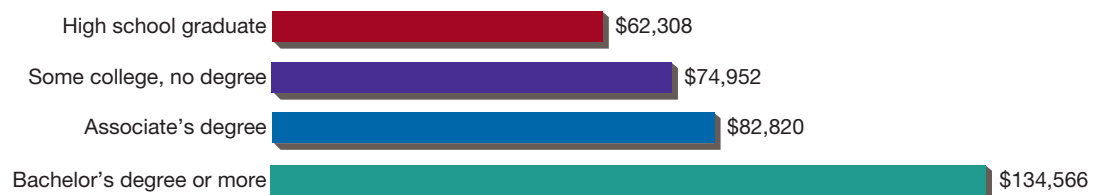
For Help in Choosing a Career What do you want to do with the rest of your life? Like many people, you may find it a difficult question to answer. This business course will introduce you to a wide array of employment opportunities. In private enterprise, these range from small, local businesses owned by one individual to large companies such as American Express and Microsoft owned by thousands of stockholders. There are also employment opportunities with federal, state, county, and local governments and with charitable organizations such as Habitat for Humanity, the Red Cross, and Save the Children. For help in deciding which career might be right for you, read Appendix A “Careers in Business,” which appears on the text website.

In addition to career information in Appendix A, a number of websites provide information about career development. To click your career into high gear, you can also use online networking. Websites like Facebook, Twitter, LinkedIn, and other social media sites can help you locate job openings and help prospective employers to find you. To make the most of online networking, begin by identifying and joining sites where you can connect with potential employers, former classmates, and others who may have or may hear of job openings. Next, be sure your online profile, photographs, and posts communicate your abilities and interests. Finally, be ready to respond quickly when you spot a job opening.

One thing to remember as you think about what your ideal career might be is that people often choose a career that is a reflection of what they value and consider most important. What will give one individual personal satisfaction may not satisfy another. For example, one person may dream of a career as a successful corporate executive with a large salary and job security in marketing or technology or financial services. Another person may choose a career that has more modest monetary rewards but that provides the opportunity to help others. What you choose to do with your life will be based on what you feel is most important. And *you* are a very important part of that decision.

Figure 1-1 Who Makes the Most Money?

Education makes a difference. Dollar amounts represent the average annual salary for full-time workers in each household.



Source: “Educational Attainment of Householder—Households with Householder 25 Years Old and Over by Median and Mean Income,” The U.S. Census Bureau at www.census.gov (accessed January 7, 2021).

Exploring Careers

Gen Z Seeks Workplace Diversity

When it comes to finding the perfect employer, Generation Z (people born between 1997 and 2012) prioritizes workplace diversity. According to a survey by Tallo, an online platform for students and job seekers, nearly 70 percent say they would be more likely to accept a job offer if the recruiters and materials representing the company were ethnically and racially diverse. In fact, some would even decline a job offer if the firm fell short on these factors. Workplace diversity—the differences among people in a workforce owing to factors such as age, race, ethnicity, gender, sexual orientation, and ability—is a top priority for Gen Z.

Gen Z—the most diverse generation ever—has surpassed Millennials (people born between 1981 and 1996) to become the largest generation. The effects of their entry into

the workplace are already felt by companies around the world. Diversity for Gen Z goes beyond race and gender to encompass gender identity and orientation. Nearly 90 percent of those surveyed said they believe employers should ask potential employees about their identified pronouns, a practice that is not yet widespread.

Companies that reflect diversity, equity, and inclusion in their branding and marketing materials will be more likely to attract fresh talent. Firms should be prepared to embed these values at the heart of the organization rather than making surface-level claims. With Gen Z on the hunt for organizations that reflect their values and beliefs, the burden is on employers to prioritize diversity issues.

Sources: Based on information in Tamara E. Holmes, "Diverse Workforce a Top Draw for Nearly 7 in 10 Members of Generation Z," *Yahoo Finance*, November 4, 2020, finance.yahoo.com/news/diverse-workforce-top-draw-nearly-175929234.html; Deloitte, "Understanding Generation Z in the Workplace," www2.deloitte.com/us/en/pages/consumer-business/articles/understanding-generation-z-in-the-workplace.html; Sheryl Estrada, "Workplace D&I in 2021 Will Keep External Community in Mind," *HR Dive*, January 13, 2021, www.hrdiver.com/news/workplace-di-in-2021-will-keep-external-community-in-mind/593297/.



To Be a Successful Employee Deciding on the type of career you want is only the first step. To get a job in your chosen field and to be successful at it, you will have to develop a plan, or a road map, that ensures you have the skills and knowledge the job requires. Think about what you'd look for if you were hiring an employee and strive to be that kind of person. You will also be expected to have the ability to work well with many types of people in a culturally diverse workforce. **Cultural (or workplace) diversity** refers to a system that recognizes and respects the differences among people because of their age, race, ethnicity, gender, sexual orientation, and ability.

This course and the other college courses you take, your instructors, and all of the resources available at your college or university can help you acquire the skills and knowledge you will need for a successful career. But don't underestimate your part in making your dream a reality. In addition to job-related skills and knowledge, employers will also look for the following characteristics when hiring a new employee or promoting an existing employee:

- Honesty and integrity
- Willingness to work hard
- Dependability
- Time management skills
- Self-confidence
- Motivation
- Willingness to learn
- Communication skills
- Professionalism

cultural (or workplace) diversity a system that recognizes and respects the differences among people because of their age, race, ethnicity, gender, sexual orientation, and ability



The road to success can take many different paths! While many people want immediate success, it's important to chart a path that leads to life-long success. It helps to remember what Joe Dudley, the founder of Dudley Beauty Products said: "Success is a journey, not just a destination."

Employers will also be interested in any work experience you may have had in cooperative work/school programs, during summer vacations, or in part-time jobs during the school year. Experience—even part-time work experience—can make a difference when it is time to apply for the job you really want.

Many employees want to become managers because managers often receive higher salaries and can earn promotions within an organization. To be effective, managers must be able to perform four basic management functions: planning, organizing, leading and motivating, and controlling. All four topics are discussed in Chapter 6, Understanding the Management Process. To successfully perform these management functions, managers must also be able to work effectively with individual employees, other managers within the firm, and people outside the firm. In addition to the four management functions just mentioned, a successful manager will need many of the same characteristics that an employee needs to be successful.

To Start Your Own Business Some people prefer to work for themselves, and they open their own businesses. To be successful, business owners must possess many of the same characteristics that successful employees and managers have, and they must be willing to work hard and put in long hours.

It also helps if a small-business owner has an idea that will provide a product or service that customers want. At the age of 16, Palmer Luckey began building virtual reality headsets in his garage after school and work. While the first prototypes based on his ideas were crude by today's standards, the product showed a great deal of promise. After further development, refinements, and more ideas, the product—now called Oculus—was a success in the marketplace. How successful? Answer: so successful that Facebook paid \$2 billion to acquire the company.⁴

Unfortunately, many business firms fail. In fact, only about 50 percent survive the first five years. Typical reasons for business failures include undercapitalization (not enough money), poor business location, poor customer service, unqualified or untrained employees, fraud, lack of a proper business plan, and failure to seek outside professional help. The material in this course will help you to overcome many of these problems. The material in Chapter 5, Small Business, Entrepreneurship, and Franchises, and selected topics and examples throughout this text will also help you to decide whether you want to open your own business.

To Become a Better Informed Consumer and Investor The world of business surrounds us. You cannot buy a home, a new Ford Escape Hybrid from the local Ford dealer, a pair of jeans at Gap Inc., or a hot dog from a street vendor without entering into a business transaction. Because you no doubt will engage

in business transactions almost every day of your life, one very good reason for studying business is to become a more fully informed consumer.

Many people also rely on a basic understanding of business to help them invest for the future. According to Julie Stav, Hispanic stockbroker turned radio and YouTube personality and the author of *Get Your Share: A Guide to Striking It Rich in the Stock Market* and other personal finance help books, it is important to learn the basics about the economy and business, stocks, mutual funds, and other alternatives before investing your money. She also believes that it is never too early to start investing.⁵ Although this is an obvious conclusion, just dreaming of being rich does not make it happen. In fact, like many facets of life, it takes planning and determination to establish the type of investment program that will help you accomplish your financial goals.

1-1b Special Note to Business Students

It is important to begin reading this text with one thing in mind: *This business course does not have to be difficult.* We have done everything possible to eliminate the problems that you encounter in a typical class. All of the features in each chapter have been evaluated and recommended by instructors with years of teaching experience. In addition, business students—just like you—were asked to critique each chapter component. Based on this feedback, the text includes the following features:

- *Learning objectives* appear at the beginning of each chapter.
- *Inside Business* is a chapter-opening case that highlights how successful, real-world companies do business on a day-to-day basis.
- *Margin notes* are used throughout a chapter to reinforce both learning objectives and key terms.
- *Boxed features* in each chapter highlight how managers, employees, and entrepreneurs can be both ethical and successful. Topics discussed in the boxed features include ethics and social responsibility, suggestions for entrepreneurs, technology and innovation, environmental issues, and exploring different career options.
- *Concept Checks* at the end of each major section within a chapter help you test your understanding of the main issues just discussed.
- *End-of-chapter materials* provide a chapter summary, a list of key terms, discussion questions, and a case about a successful, real-world company.
- The last section of every chapter is entitled *Building Skills for Career Success* and includes exercises devoted to enhancing your social media skills, building team skills, and researching different careers.
 - *End-of-part materials* provide a continuing case about Graeter's Ice Cream, a company that operates a chain of retail outlets in the Cincinnati, Ohio, area and sells to Kroger Stores and other retailers and consumers throughout the country. Also, at the end of each major part is an exercise designed to help you develop the components included in a typical business plan.



We've worked hard to make sure this edition reflects what is happening in the world and our nation. We wanted you to know how changes in the economy and world events, and yes, even a pandemic can impact not only business, but also you as a student and a consumer. Just as important, we wanted to create a text and student learning materials that help you be successful.

Because a text should always be evaluated by the students and professors who use it, we would welcome and sincerely appreciate your comments and suggestions. Please feel free to contact us by using one of the following e-mail addresses:

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1-2 Business: A Definition

Business is the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs. The general term *business* refers to all such efforts within a society (as in "American business"). However, a *business* is a particular organization, such as a Kroger grocery store or a Cracker Barrel Old Country Store. To be successful, a business must perform three activities. It must be organized, it must satisfy needs, and it must earn a profit.

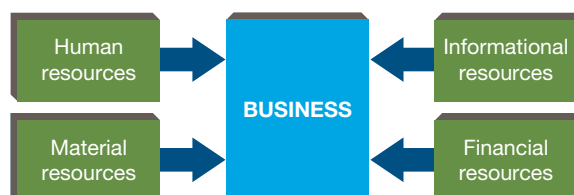
1-2a The Organized Effort of Individuals

For a business to be organized, it must combine four kinds of resources: material, human, financial, and informational. *Material* resources include the raw materials used in manufacturing processes. For example, Mrs. Fields Cookies needs flour, sugar, butter, eggs, and other raw materials to produce the food products it sells worldwide. Material resources can also include buildings and machinery—sometimes referred to as the capital resources needed to produce goods and services. In addition, a company needs human, financial, and informational resources. *Human* resources are the people who furnish their labor to the business in return for wages. The *financial* resource is the money required to pay employees, purchase materials, and generally keep the business operating. *Information* is the resource that tells the managers of the business how effectively the other three resources are being combined and used (refer to Figure 1-2).

Today, businesses are usually organized as one of three specific types. *Service businesses* produce services, such as haircuts, legal advice, or tax preparation. H&R Block provides tax preparation and software and digital products to both businesses and consumers in the United States and around the world. *Manufacturing businesses* process various material resources into tangible goods, such as automobiles and trucks, clothing, or computers. Intel, for example, produces computer chips and other technology components that, in turn, are sold to companies that manufacture computers. Finally, some firms called *marketing intermediaries* buy products from manufacturers and then resell them. Sony Corporation is a manufacturer that produces stereo equipment, televisions, cameras, and other electronic products. These products may be sold to a marketing intermediary—often referred to as a retailer—such as Best Buy or Walmart, which then resells the manufactured goods to consumers in their retail stores.

Figure 1-2 Combining Resources

A business must combine all four resources effectively to be successful.



✓ Concept Check

- ▶ What reasons would you give if you were advising someone to study business?
- ▶ What factors affect a person's choice of careers?
- ▶ Once you have a job, what steps can you take to be successful?

Learning Objective

- 1-2** Identify the potential risks and rewards of business.

business the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs