

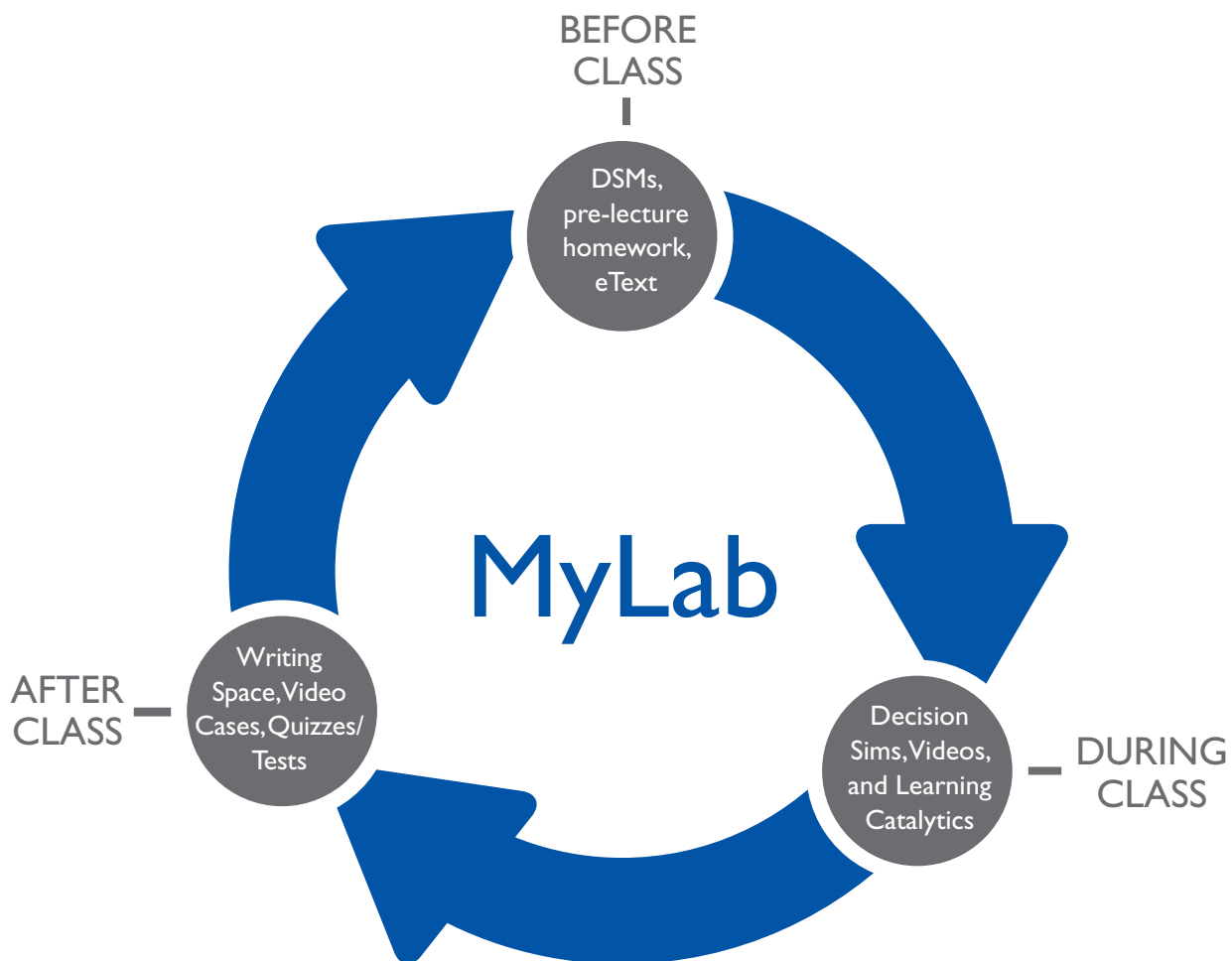
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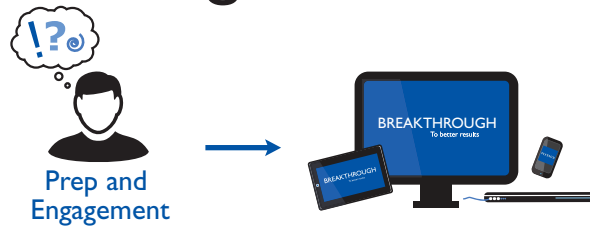
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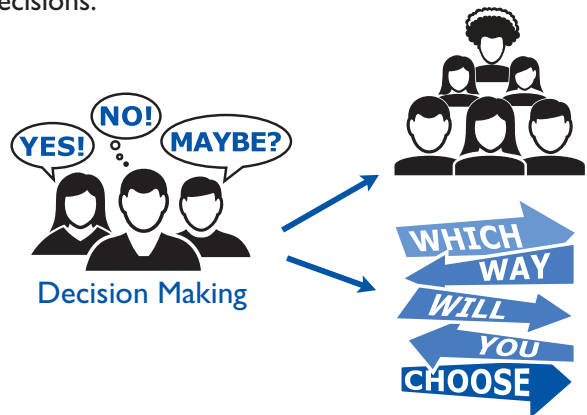


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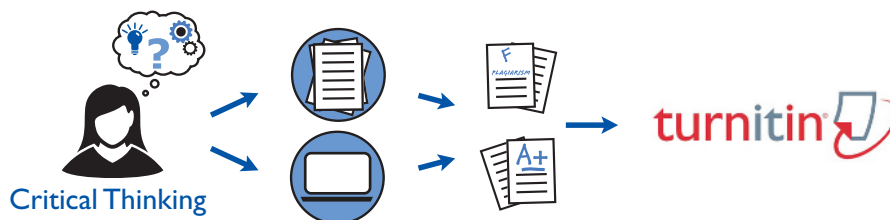
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Library of Congress Cataloging-in-Publication Data

Ebert, Ronald J.

Business essentials/Ronald J. Ebert, Ricky W. Griffin.—Eleventh Edition.

pages cm

Revised edition of Business essentials, 2015.

ISBN 978-0-13-412996-9 (alk. paper)

ISBN 0-13-412996-2 (alk. paper)

1. Industrial management—United States. 2. Business enterprises—United States.

I. Griffin, Ricky W. II. Title.

HD70.U5E2 2016

658—dc23

2015021208

10 9 8 7 6 5 4 3 2 1

PEARSON

ISBN 10: 0-13-412996-2
ISBN 13: 978-0-13-412996-9

For Ben Welch—A steadfast friend, an outstanding colleague,
and one of the best men that I've ever known.

—R. W. G.

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letter from the authors

Businesses today face constant change—change in their competitive landscape, change in their workforce, change in governmental regulation, change in economic conditions, change in technology, change in . . . well, you get the idea. As we began to plan this revision, we, too, recognized the need for change. Changing demands from instructors, changing needs and preferences of students, and changing views on what material to cover in this course and how to cover it have all affected how we planned and revised the book.

A new editorial team was assembled to guide and shape the creation and development of the book. Along with suggestions from many loyal users, the business world itself provided us with dozens of new examples, new challenges, new successes and failures, and new perspectives on what they must do to remain competitive. And a new dedication to relevance guided our work from beginning to end. For example, we know that some business students will go to work for big companies. Others will work for small firms. Some will start their own business. Still others may join a family business. Nonbusiness students, too, as interested citizens, are curious about the whys and hows of businesses. So, we accepted the challenge of striving to make the book as relevant as possible to all students, regardless of their personal and career goals and objectives.

We also carefully reviewed the existing book line by line, eliminating extraneous material and adding new material. Examples were updated or replaced with newer ones. We worked extra hard to make our writing as clear and as crisp as possible. More recent business practices and issues are included throughout the text. We've also engaged the student by opening each chapter with the question: "What's in It for Me?" We then answer that question by identifying the key elements in the chapter that are most central to the student's future relationship to business—be it as employee, manager, consumer, investor, or interested citizen. And, because so much work in modern organizations is performed by teams, we included the special team ethics exercise at the end of each chapter. We also retained the companion individual ethics exercises that have been so popular in previous editions.

We are proud of what we have accomplished and believe that we have taken this book to a higher level of excellence. Its content is stronger, its learning framework is better, its design is more accessible, and its support materials are the best in the market. We hope that you enjoy reading and learning from this book and its supporting resources as much as we enjoyed creating them. And who knows? Perhaps one day we can tell your story of business success to future students.

Ron Ebert
Ricky Griffin

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about the authors

Ronald J. Ebert is Emeritus Professor at the University of Missouri–Columbia, where he lectures in the Management Department and serves as advisor to students and student organizations. Professor Ebert draws 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 has fostered an advocacy for integrating concepts with best business practices in business education. The five business books he has coauthored have been translated into Spanish, Chinese (Simplified), Chinese (Traditional), Malaysian, Bahasa Indonesian, and Romanian languages. Professor Ebert has served as the Editor of the *Journal of Operations Management*. He is a Past President and Fellow of the Decision Sciences Institute. He has served as consultant and external evaluator for *Quantitative Reasoning for Business Studies*, an introduction-to-business project sponsored by the National Science Foundation.



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

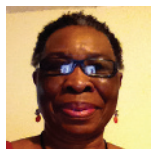
In addition, Professor Griffin has also authored or coauthored several leading textbooks and coedited three scholarly books. His books have been used at more than 500 colleges and universities on five continents and have been translated into Spanish, Russian, Polish, and Chinese. He has served the Academy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



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special thanks to our super reviewers

We would like to personally thank our panel of super reviewers for their deep involvement with this edition of the book.



Chi Archibong, North Carolina A&T State University



Todd Jamison, Chadron State College

George Bernard, Seminole State College of Florida



Pierre Laguerre, Bergen County Community College



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Jo Ann Rawley, Reading Area Community College



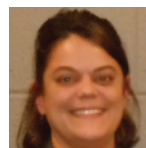
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preface

A “business” is an organization that trades goods or services to consumers in exchange for profits. “Essentials” are things that are necessary or extremely important. Together, then, these two words clearly convey the purpose of this book—to introduce current and future managers to the essentials associated with the businesses they will lead. Very few textbooks reach their eleventh edition, so the market would suggest that we have been effectively addressing the essentials of business for many years.

New to This Edition

- Five kinds of chapter-ending involvement activities—to reinforce and practice the use of chapter concepts—are back by popular demand (see detailed descriptions that follow).
- Hundreds of new real-life business examples are added throughout the text, as requested by reviewers and users.
- Each of the chapter opening cases has been updated or completely replaced. New cases appear in Chapter 4 (The Global Context of Business), Chapter 8 (Employee Behavior and Motivation), Chapter 9 (Leadership and Decision Making), Chapter 11 (Marketing Processes and Consumer Behavior), and Chapter 17 (Managing Business Finances). These cases cover everything from fair trade and embargoes to the rise of Netflix, and the reorganization of Abercrombie & Fitch to labor relations at Wegman’s. Accessible and relatable topics introduce each chapter, drawing the reader into the content and how it is used in the business world.
- We have added new coverage of social responsibility and the small business, the government and social responsibility, and managing social responsibility in Chapter 2. The chapter also has several new examples that focus on Diamond Nuts and Hewlett-Packard’s accounting errors and Panera and Nordstrom’s charitable efforts, which we use to illustrate key points.
- Chapter 3 features new coverage of distinctive competencies and sources of financing for small businesses. All statistics in this chapter have been updated, there are several new examples, and we feature expanded coverage of service businesses.
- We have added significant new coverage of the role of culture in international business in Chapter 4. This chapter also includes several new examples, such as ones that navigate relaxed laws in Asia and the Cayman Islands, and updated statistics. We also cover the emerging new relationship between the United States and Cuba.
- Chapter 5 includes new coverage of the science and art of management and key managerial roles and skills.
- In Chapter 6, we have added new coverage of functional departmentalization and the organizational grapevine, plus, several new examples center on companies such as United Airlines and Steinway.
- The substantial revisions in Chapter 7 emphasize operations for organizations that are service providers. New operations examples reinforce the prominence of service industries such as tourism, consulting, transportation, and hospitality in today’s economy.
- Chapter 8 has been expanded to include new coverage of personality traits at work, how individual attitudes are formed, cognitive dissonance, and other important individual needs.

- We added additional material on leadership and power, situational approaches to leadership, and the nature of decision making to Chapter 9. This chapter also has several new examples.
- Chapter 10 now includes new or expanded coverage of the strategic importance of human resource management, the legal context of human resource management, compensation and benefits, and developing the workforce. The chapter has also been reorganized and includes several new examples, such as one about how top software companies compete for programmers.
- After hearing the needs of and feedback from instructors, we expanded coverage of marketing topics to three chapters: Chapter 11, Marketing Processes and Consumer Behavior, includes an example of the cruise industry’s use of pretrip social networking among passengers; Chapter 13, Distributing and Promoting Products, contains new discussions on personal selling situations and personal selling processes.
- New examples in Chapter 14 discuss the abilities of service industries to customize products such as pet care and clothing designs. We also used recent examples to update the popular presentation on ethical issues arising with information technology.
- Discussion of sources for financing the small business was added to Chapter 17. Key points include the value of establishing bank credit, along with presentation of a business plan for gaining longer-term sources of funding.
- The revised Appendix on Labor Relations is an expansion of material covered in Chapter 10, providing a better understanding of how and why workers organize into labor unions, how unions and businesses relate to each other, and how the collective bargaining process works.

In-Chapter Features

“What’s in It for Me?”

Each chapter opens with a section called “What’s in It for Me?” In this section, we answer that question by identifying the key elements in the chapter that are most central to your future careers in business, be they as an employee, manager, investor, or as an outside consumer or interested citizen—making it clear why each chapter really matters.

Two-Part Chapter Case Vignettes

We’ve updated or completely replaced the chapter-opening cases, keeping them fresh, relevant, and up to date. Covering companies from Netflix to Abercrombie & Fitch, and Apple and Starbucks to Google, these chapter case vignettes pique your interest at the beginning of the chapter. Concepts you learn throughout the chapter are reinforced by adding a new case wrap-up using discussion questions at the end of the chapter. The questions require students to apply chapter content to issues in the chapter-opening case.

Entrepreneurship and New Ventures

If your plan is to work for a large corporation, start your own business, or anything in between, you need to be both entrepreneurial and *intrapreneurial*. These updated, popular boxed features touch on entrepreneurs who have really made a difference, some in large firms, others in smaller start-up companies. New “entrepreneurship and new ventures” boxes examine Chinese retail giant Alibaba, New York-based Shake Shack, and Harmless Harvest coconut water.

Managing in Turbulent Times

Whatever your role with any business, as employee, customer, or investor, you need to see the challenges and consequences firms encounter during economic downturns. Experiences from real companies reveal both disappointments and unexpected new opportunities arising from the lingering effects of the recession and the uncertainties of a prolonged economic recovery. New features look at recent IPOs, leadership in a virtual world, and workplace bullying.

Finding a Better Way

Although businesses face challenges for survival, they also find new opportunities for displacing existing business practices with more efficient ones that improve the organization's stature and competitive success in today's changing markets. This boxed feature reveals examples of organizations that are "finding a better way" to meet these business challenges and describes how they are doing it. New features cover the international organization Habitat for Humanity, entrepreneur Ruzwana Bashir, and B-corporation EcoZoom.

End-of-Chapter Features

We've also brought back several end-of-chapter features that, along with new features, are designed to help you review and apply chapter concepts and build skills.

Summary of Learning Objectives

The Summary offers a quick guide for you to review the major topics covered in each chapter.

Key Terms

key terms with page references help reinforce chapter concepts.

Questions and Exercises

This feature includes a set of questions for review, questions for analysis, and application exercises that test the students' understanding of the chapter topics.

Building a Business: Continuing Team Exercise

The team exercise is designed for student teams to develop business plans cumulatively from the ground up, chapter-by-chapter, throughout the course. Each chapter-ending assignment directs teams into discussions and applications of that chapter's contents as they apply to their team's business plan.

Team Exercises

A business situation and action steps guide students through the team activities.

Exercising Your Ethics

Exercises ask you to examine an ethical dilemma and think critically about how you would approach and resolve it.

Cases

Students are challenged to *apply* the chapter content by responding to a set of questions about the practical business situation presented in the chapter-opening case as well as an additional case.

Crafting a Business Plan

At the end of each part, there is a Crafting a Business Plan exercise, guiding students through the steps of creating a business plan related to the topics covered in those chapters.

What's in It for You?

If you're like many other students, you may be starting this semester with some questions about why you're here. Whether you're taking this course at a two-year college, at a four-year university, or at a technical school, in a traditional classroom setting or online, you may be wondering just what you're supposed to get from this course and how it will benefit you. In short, you may be wondering, "What's in it for me?"

Regardless of what it may be called at your school, this is a survey course designed to introduce you to the many exciting and challenging facets of business, both in the United States and elsewhere. The course fits the needs of a wide variety of students. You may be taking this course as the first step toward earning a degree in business, you may be thinking about business and want to know more about it, or you may know you want to study business but are unsure of the area you want to pursue. Maybe you plan to major in another field but want some basic business background and are taking this course as an elective. Or you may be here because, frankly, this course is required or is a prerequisite to another course.

For those of you with little work experience, you may be uncertain as to what the business world is all about. If you have a lot of work experience, you may even be a bit skeptical about what you can actually learn about business from an introductory course. One of our biggest challenges as authors is to write a book that meets the needs of such a diverse student population, especially when we acknowledge the legitimacy of your right to ask, "What's in it for me?" We also want to do our best to ensure that you find the course challenging, interesting, and useful.

The world today is populated with a breathtaking array of businesses and business opportunities. Big and small businesses, established and new businesses, broad-based and niche businesses, successful and unsuccessful businesses, global and domestic businesses—throughout this book, we'll discuss how they get started and how they work, why they grow and why some fail, and how they affect you. Regardless of where your future takes you, we hope that you look back on this course as one of your first steps.

Going forward, we also urge you to consider that what you get out of this course—what's in it for you—is shaped by at least three factors. One factor is this book and the various learning aids that accompany it. Another factor is your instructor. He or she is a dedicated professional who wants to help you grow and develop intellectually and academically.

The third factor? You. Learning is an active process that requires you to be a major participant. Simply memorizing the key terms and concepts in this book may help you achieve an acceptable course grade; but true learning requires that you read, study, discuss, question, review, experience, and evaluate as you go along. Although tests and homework may be a "necessary evil," we believe we will have done our part if you finish this course with new knowledge and increased enthusiasm for the world of business. We know your instructor will do his or her best to facilitate your learning. The rest, then, is up to you. We wish you success.

To help lay the foundation for meeting these challenges, let's look at the various hats that you may wear, both now and in the future.

Wearing the Hats

There's an old adage that refers to people wearing different "hats." In general, this is based on the idea that any given person usually has different roles to play in different settings. For example, your roles may include student, child, spouse, employee,

friend, or parent. You could think of each of these roles as needing a different hat—when you play the role of a student, for example, you wear one hat, but when you leave campus and go to your part-time job, you put on a different hat. From the perspective of studying and interfacing with the world of *business*, there are at least four distinct hats that you might wear:

- *The Employee Hat.* One business 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 duties and responsibilities, how to get along with others, how to work with your boss, what your organization is all about, and so on. You'll begin to see how to best wear this hat as you learn more about organizing business enterprises in Chapter 6 and how organizations manage their human resources in Chapter 10, as well as in several other places in this book.
- *The Employer or Boss Hat.* Another business hat that many people wear is as an employer or boss. Whether you start your own business or get promoted within someone else's business, one day people will be working for you. You'll still need to know your job duties and responsibilities. But you'll now also need to understand how to manage other people—how to motivate and reward them, how to lead them, how to deal with conflict among them, and the legal parameters that may affect how you treat them. Chapters 3, 5, 8, and 9 provide a lot of information about how you can best wear this hat, although the role of employer 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 with Shell gasoline, bid for something on eBay, buy clothes at Urban Outfitters, or download a song from iTunes, you're consuming products or services created by business. To wear this hat effectively, you need to understand how to assess the value of what you're buying, your rights as a consumer, and so on. We discuss how you can best wear this hat in Chapters 4, 7, 11, 12, and 13.
- *The Investor Hat.* The final business hat many people wear is that of an investor. You may buy your own business or work for a company that allows you to buy its own stock. You may also invest in other companies through the purchase of stocks or shares of a mutual fund. For you to invest wisely, you must understand some basics, such as financial markets, business earnings, and the basic costs of investment. Chapters 4, 15, 16, 17, and an appendix 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.

Supplements

At the Instructor Resource Center, www.pearsonhighered.com/irc, instructors can access a variety of print, digital, and presentation resources available with this text in downloadable format. Registration is simple and gives you immediate access to new titles and new editions. As a registered faculty member, you can download resource files and receive immediate access to and instructions for installing course management content on your campus server. In case you ever need assistance, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available for download to adopting instructors:

- Instructor's Resource Manual
- Test Bank
- TestGen® Computerized Test Bank
- PowerPoint Presentation

acknowledgments

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

Leslie Carnes, Ivy Tech Community College—Warsaw
Carol A. Heeter, Ivy Tech Community College—Elkhart County
Linda Hoffman, Ivy Tech Community College—Fort Wayne
Storm Russo, Valencia College
Colette Wolfson, Ivy Tech Community College

We would also like to acknowledge the outstanding professionalism of our team at Pearson Education. Nicole Sam (our Acquisitions Editor), Denise Weiss (Program Manager), and Ann Pulido (Project Manager), have been instrumental in helping us continue to elevate the quality of our work and make this book even stronger. We would also like to thank Sivakumar Krishnamoorthy and the other professionals at Integra for their assistance as well. Finally, Madison Brown provided important assistance in helping locate current research, information, and statistics to ensure that our coverage of all major aspects of business is as timely and up-to-date as possible.

We would also like to welcome Kate Demarest to our team. Kate is Professor of Accounting and Assessment and Program Analyst at Carroll Community College in Maryland. Kate helped us update or replace the boxes and cases throughout the book and revised and enhanced all of the end-of-chapter pedagogy.

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

Ronald J. Ebert
Ricky W. Griffin

P.S. (from Ricky)

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

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

Ricky W. Griffin
2016

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

chapter 1

The U.S. Business Environment

PART 1 | THE CONTEMPORARY BUSINESS WORLD



Vivid Pixels/Shutterstock

The best way to make money is to sell products that

consumers want or need. While this

sounds simple,

only a few strike gold.

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.



What Goes Up ... Can also Come Down!

What did you pay for the last bottle of water or cup of coffee you bought? If you paid, say \$1.50, you likely paid the same price the last time you bought one and will pay the next time as well. Although the

price may eventually go up, increases generally happen only occasionally and then remain the same for a while. Now, how much did you pay for a gallon of gasoline the last time you filled your tank? How did that price compare to the time before? How about the time before that? Chances are, each time you fill up, the price is a little different—sometimes a few cents more, sometimes a few cents less. But sometimes the prices jump—or drop—substantially more than just a few cents. In the year 2008 alone, we saw the highest monthly average ever at \$4.11 per gallon, followed by prices plummeting to only \$1.75 per gallon by December of the same year. Prices peaked around \$4.00 per gallon in 2011, but fell to \$2.63 by the end of 2014.

Why have gasoline prices gone up and down so dramatically, and why do prices change from one day to the next? In general, gas prices fluctuate as a result of four forces: supply, demand, global trends, and uncertainty. In the past, gas prices generally increased only when the supply was reduced. But the circumstances underlying the increases from 2004 to 2012 were much more complex. In the early part of the past decade, U.S. gasoline producers were unable to supply enough for U.S. demand and much of the gasoline sold here was purchased on the world market. However, more recently, the United States has sharply increased their production capabilities and has even begun exporting gasoline to other countries. Second, demand for gasoline in the United States has continued to rise as a result of a growing population, the continued popularity of large gas-guzzling vehicles, and a strong demand for other petroleum-based products.

Another major piece of the puzzle has been a surging global economy that, until recently, caused a higher demand for oil and gasoline. China, in particular, has become a major consumer of petroleum, passing Japan in 2005 to trail only the United States in total consumption. The global recession that started in 2008, however, reduced demand in most industrialized countries. The recession, in fact, probably played a role in the dip in prices in 2009 just as the gradual recovery that started in 2010 helped spur higher prices once again. Political turmoil in the Middle East also played a major role. As the United States ramped up

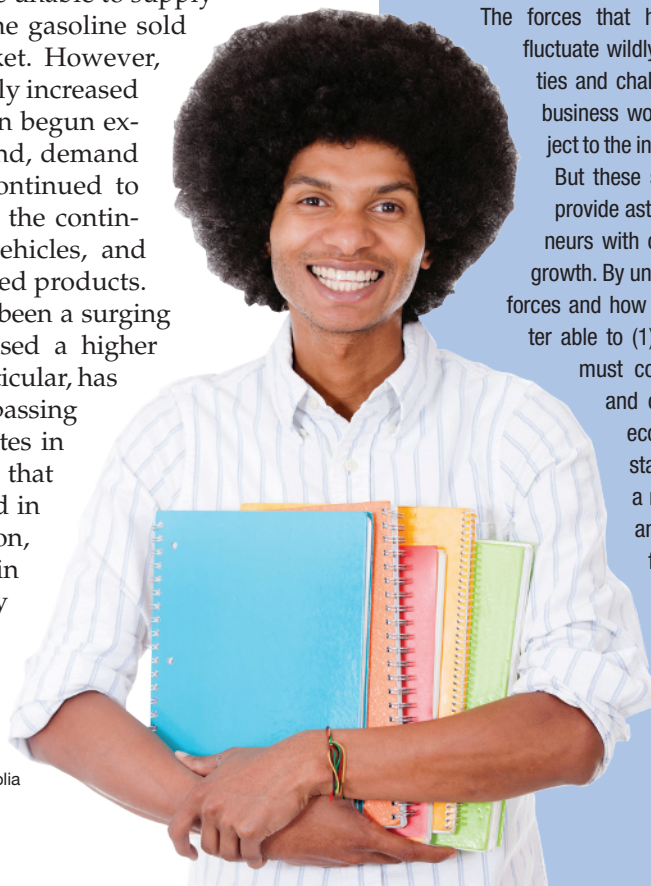
Andres Rodriguez/Fotolia



what's in it for me?

The forces that have caused oil prices to fluctuate wildly reflect both the opportunities and challenges you'll find in 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.

production of gasoline, tapping into new sources, a sharp increase in supply resulted in steadily decreasing prices over the last half of 2014. By January 2015, a gallon of gasoline cost \$2.21, down 34 percent from the same month in 2014.¹

These price fluctuations have also led to a wide array of related consequences. Based on high prices for gasoline from 2011 through 2013, automobile manufacturers stepped up their commitment to making more fuel-efficient cars even as automobile sales plummeted during the recent recession. Refiners posted record profits. (In fact, some critics charged that the energy companies were guilty of price gouging.) Even local police officers were kept busy combating a surge in gasoline theft, yet another indication that gas was becoming an increasingly valuable commodity!

While surging oil and gas prices occupied the thoughts of consumers, government officials began to worry about the bigger picture. The surging global demand for gasoline has forced experts to face a stark reality—the global supply of petroleum will soon peak and then slowly begin to decline. Although no one can pinpoint when this will happen, virtually all the experts agree that it will happen well before the middle of this century.

So then what? The laws of supply and demand will continue to work, but perhaps in different ways. First, just because the supply of oil will decline doesn't mean that it will disappear immediately. Although there may be gradual reductions in supply, oil and gas will remain available for at least another century—but at prices that may make those of today seem like a bargain. New technology may also allow businesses to extract petroleum from locations that are not currently accessible, such as from the deepest areas under the oceans.

Second, and more significant, businesses everywhere will have market incentives to figure out how to replace today's dependence on oil and gas with non-petroleum alternatives. For instance, automobile manufacturers are already seeing increased demand for their hybrid products, which are cars and trucks that use a combination of gasoline and electrical power. Completely electric vehicles are also gaining ground, with virtually every major manufacturer, including Chevrolet, BMW, and Cadillac, having at least one commercially available completely electric car. In addition, firms that can produce alternative sources of energy will spring up, and those who find viable answers will prosper; companies that can figure out how to replace today's plastic products with new products that don't rely on petroleum will also find willing buyers.² (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.)

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

Business, Profit, and the External Environment

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

Business and Profit

All these organizations are **businesses**, organizations that provide goods or services that are then sold to earn profits. Indeed, the prospect of earning **profits**, the difference between a business's revenues and its expenses, is what encourages people to

open and expand businesses. After all, profits are the rewards owners get for risking their money and time. The right to pursue profits distinguishes a business from those organizations—such as most universities, hospitals, and government agencies—that run in much the same way but that generally don't seek profits.³

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, although large retailers such as Circuit City and Linens-N-Things closed their doors in 2009, other firms profited from these closings by handling the inventory liquidations of those failed retailers. And as oil prices have dropped, gasoline producers like Chevron and Shell have seen their profits begin to decline. But food distributors like Sysco and delivery services such as UPS are seeing their expenses drop and hence their profits start to 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 complete 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

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

finding a better way

The B Team

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

B corporations are businesses—each is an organization that seeks to earn profits—but performance is measured not only by profits or growth in stock price but also by the organization's impact on society and the environment. Portland, Oregon-based EcoZoom is a B corporation that began in 2011 with a goal of generating a profit as well as concern for the health of their customers, economic development, and environmental awareness. Founder Ben West left his successful career in the transportation industry to earn an MBA. One of his professors was on the board of directors of Aprovecho, a nonprofit that designed cookstoves for use in developing countries. Although Aprovecho had developed great technology, they didn't know how to get the product to the market. This is where EcoZoom entered the story. EcoZoom manufactures the stoves in China and sells them in the United States for camping and other outdoor uses.⁴ However, their primary market is developing countries, where existing stove technology had serious health impacts. Using traditional stoves, women and children were exposed to toxic smoke that made them more susceptible to acute illnesses such as pneumonia, lung cancer, and heart disease.⁵

EcoZoom produces several models of low-emissions cookstoves, each very energy efficient. Because the cookstoves



EcoZoom

reduce fuel use and cooking time, women have more time to spend with their families and on other tasks, such as maintaining their gardens. Their stoves can burn traditional biomass fuels, such as corncobs and cow dung, as well as wood and charcoal. The company also tries to impact the larger economic environment by selling their products through local distributors in countries such as Somalia, Kenya, and Rwanda. In the future, they hope to establish production facilities in these countries to expand their economic impact.⁶ It may just be that EcoZoom, and other B corporations, have found a better way.

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 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 political protests spread through much of the Middle East in 2013, oil prices began to surge and companies with operations in the region took emergency measures to protect their employees. But in 2014, a global oil surplus caused oil prices to plunge. At a more immediate level, any given business is likely to be affected by international market opportunities, suppliers, cultures, competitors, and currency values. For instance,



FIGURE 1.1 Dimensions of the External Environment

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.

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

Political-Legal Environment the relationship between business and government