Foundations of Business

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Foundations of Business 6E

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***Foundations of Business*, Sixth Edition**
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Library of Congress Control Number: 2017958050

ISBN: 978-1-337-38692-0

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Printed in the United States of America
Print Number: 01 Print Year: 2018

LETTER FROM THE AUTHORS

Dear Business Students,

Imagine what your life will be like in 5, 10, or 20 years from now. Think about retirement after working most of your life. 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 when you were just starting your career. 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. Those same decisions are a reflection of what's important to you. For some, a good life is a high-paying job, promotions, and financial security. For others, a good life is balancing a rewarding career, helping others, and personal time. Regardless of your personal goals, we wrote this text with one purpose: To provide the information you need to make decisions that will help you succeed in today's competitive business world and in your personal life.

This new edition of *Foundations of Business* is packed with updated content and information that can help you not only get a better grade, but also help you reach your personal goals and establish a rewarding 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. New features provide examples that illustrate how companies like Facebook, S.C. Johnson, Levi Strauss, Google, Nike, American Express, and Warby Parker tackle real-world problems.

We also realize that students learn in different ways. Information and feedback from a nationwide group of students helped guide the development of learning activities that can help you learn. We're especially proud of the following learning activities in the text and its Web site.

- Concept Checks at the end of major sections in every chapter
- Opening Cases and Box Features
- Chapter Summaries
- Video Cases
- Building Skills for Career Success Activities
- Student PowerPoints
- Along with all of the assessment material available in the MindTap version of our product.

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 and concepts in this text to build a foundation for a better life. Now, it's time to start that journey. Begin by reading Chapter 1 to see how Pride/Hughes/Kapoor can help you learn about business and enjoy success in not only your career, but also your life.

Sincerely,

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Bob Hughes
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Jack Kapoor
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To Nancy, Allen, Carmen, Gracie, Mike, Ashley, Charlie, J.R. and Anderson 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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Acknowledgments

The quality of this book and its supplements program has been helped immensely by the insightful and rich comments of a special set of instructors. Their thoughtful and helpful comments had real impact in shaping the final product. We wish to thank:

John Adams, *San Diego Mesa College*
Ken Anglin, *Minnesota State University, Mankato*
Ellen A. Benowitz, *Mercer County Community College*
Michael Bento, *Owens Community College*
Patricia Bernson, *County College of Morris*
Laura Bulas, *Central Community College, NE*
Susan Calhoun, *Richland College*
Brennan Carr, *Long Beach City College*
Paul Coakley, *The Community College of Baltimore County*
Jean Condon, *Mid-Plains Community College*
Mary Cooke, *Surry Community College*
Dean Danielson, *San Joaquin Delta College*
John Donnellan, *Holyoke Community College*
Gary Donnelly, *Casper College*
Karen Edwards, *Chemeketa Community College*
Donna K. Fisher, *Georgia Southern University*
Charles R. Foley, *Columbus State Community College*
Mark Fox, *Indiana University South Bend*
Connie Golden, *Lakeland Community College*
Karen Gore, *Ivy Tech Community College—Evansville*
Carol Gottuso, *Metropolitan Community College*
John Guess, *Delgado Community College*
Frank Harber, *Indian River State College*
Linda Hefferin, *Elgin Community College*
Tom Hendricks, *Oakland Community College*
Robert James, *Macomb Community College*
Eileen Kearney, *Montgomery Community College*
Anita Kelley, *Harold Washington College*
Mary Beth Klinger, *College of Southern Maryland*
Natasha Lindsey, *University of North Alabama*
Robert Lupton, *Central Washington University*
John Mago, *Anoka Ramsey Community College*
Rebecca J. Mahr, *Western Illinois University*
Pamela G. McElligott, *St. Louis Community College Meramec*
Myke McMullen, *Long Beach City College*
Carol Miller, *Community College of Denver*
Diane Minger, *Cedar Valley College*
Jaideep Motwani, *Grand Valley State*
Mark Nagel, *Normandale Community College*
Dyan Pease, *Sacramento City College*
Jeffrey D. Penley, *Catawba Valley Community College*
Angela J. Rabatin, *Prince George's Community College*
Anthony Racka, *Oakland Community College—Auburn Hills Campus*
Dwight Riley, *Richland College*
Kim Rocha, *Barton College*
Carol Rowey, *Community College of Rhode Island*
Christy Shell, *Houston Community College*
Cindy Simerly, *Lakeland Community College*
Yolanda I. Smith, *Northern Virginia Community College*
Gail South, *Montgomery College*
Rieann Spence-Gale, *Northern Virginia Comm. College—Alexandria Campus*
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Tricia Troyer, *Waubonsee Community College*
Leo Trudel, *University of Maine - Fort Kent*
Randy Waterman, *Richland College*
Leslie Wiletzky, *Pierce College—Ft. Steilacoom*
Anne Williams, *Gateway Community College*

We thank the Dallas Center for Distance Learning Solutions for their Telecourse partnership and for providing the related student and instructor materials. Finally, we thank the following people for their professional and technical assistance: Marian Burk Wood, Gwyn Walters, Fatima Wood, Marilyn Ayala, Jaime Mitash, Jessica Minks, Nancy A. Johnson, Esq., LuAnn Bean Mangold, Nikki Hicks, Brenda Aram, Clarissa Means, Theresa Kapoor, David Pierce, Kathryn Thumme, Karen Tucker, and Dave Kapoor.

Many talented professionals at Cengage Learning have contributed to the development of *Foundations of Business, 6e*. We are especially grateful to Erin Joyner, Mike Schenk, Bryan Gambrel, Heather Mooney, Allie Janneck, Nadia Saloom, John Rich, Stephanie Hall, Bethany Casey, Charisse Darin, Tawny Schaad, and Megan Fischer. Their inspiration, patience, support, and friendship are invaluable.

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Dr. Pride's research articles have appeared in major journals in the fields of advertising and marketing, such as *Journal of Marketing, Journal of Marketing Research, Journal of the Academy of Marketing Science*, and the *Journal of Advertising*. Dr. Pride is a member of the American Marketing Association, Academy of Marketing Science, Society for Marketing Advances, and the Marketing Management Association. Dr. Pride has taught Principles of Marketing and other marketing courses for more than 40 years at both the undergraduate and graduate levels.

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Robert J. Hughes (PhD, University of North Texas) specializes in business administration and college instruction. He has taught Introduction to Business for more than 35 years both on campus and online for Richland College—one of seven campuses that are part of the Dallas County Community College District. In addition to *Business* and *Foundations of Business*, published by Cengage Learning, he has authored college textbooks in personal finance and business mathematics; served as a content consultant for two popular national television series, *It's Strictly Business* and *Dollars & Sense: Personal Finance for the 21st Century*; and is the lead author for a business math project utilizing computer-assisted instruction funded by the ALEKS Corporation. He is also active in many academic and professional organizations and has served as a consultant and investment advisor to individuals, businesses, and charitable organizations. Dr. Hughes is the recipient of three different Teaching in Excellence Awards at Richland College. According to Dr. Hughes, after 35 years of teaching Introduction to Business, the course is still exciting: "There's nothing quite like the thrill of seeing students succeed, especially in a course like Introduction to Business, which provides the foundation for not only academic courses, but also life in the real world."

Jack R. Kapoor
College of DuPage

Jack R. Kapoor (EdD, Northern Illinois University) has been a Professor of Business and Economics in the Business and Technology Division at the College of DuPage, where he has taught Introduction to Business, Marketing, Management, Economics, and Personal Finance since 1969. He previously taught at Illinois Institute of Technology's Stuart School of Management, San Francisco State University's School of World Business, and other colleges. Professor Kapoor was awarded the Business and Services Division's Outstanding Professor Award for 1999–2000. He served as an Assistant National Bank Examiner for the U.S. Treasury Department and as an international trade consultant to Bolting Manufacturing Co., Ltd., Mumbai, India.

Dr. Kapoor is known internationally as a coauthor of several textbooks in Business and Personal Finance, including Business MindTap (Cengage Learning) has served as a content consultant for two popular national television series *"Dollars & Sense: Personal Finance for the 21st Century"; The Business File: An Introduction to Business*, and developed two full-length audio courses in business and personal finance. He has been quoted in many national newspapers and magazines, including *USA Today, U.S. News & World Report*, the *Chicago Sun-Times, Crain's Small Business*, the *Chicago Tribune*, and other publications.

Dr. Kapoor has traveled around the world and has studied business practices in capitalist, socialist, and communist countries.

PART 1
The Environment of Business

VIACHESLAV LOPATIN/SHUTTERSTOCK.COM

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.

CHAPTER

1

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Exploring the World of Business and Economics

Why Should You Care?

Studying business will help you to 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 Define *business* and identify potential risks and rewards.

1-3 Define *economics* and 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 factors that affect the business environment and the challenges that American businesses will encounter in the future.

INSIDE BUSINESS

A Is for Alphabet, Giant of the Global Economy

Do you know Alphabet? It's one of the most valuable corporations on the planet, with an ever-expanding array of high-tech goods and services. Even if the name of this Silicon Valley company isn't familiar, you probably know its most famous brand: Google. In fact, much of Alphabet's $75 billion in annual revenue comes from the Google subsidiary, which offers search services, sells advertising, provides cloud storage, and operates Gmail, Android, and Chrome.

In addition, Alphabet owns two biotech subsidiaries, two investment arms that pour money into promising startups, and a research lab (called X) for experimental ventures. Other Alphabet subsidiaries are planning high-speed Internet access for urban areas and fine-tuning app-controlled "smart home" systems. In short, Alphabet's businesses are involved in a long list of ambitious projects, part of the parent company's long-term plan for increasing global revenues.

As strong as Alphabet is in the United States, it also recognizes the potential for profit in countries with faster-growing economies. India, for example, has 350 million Internet users, a number that is expected to double within a few years. Doing business in India can be a challenge because it is home to many languages, many low-income households, and many remote villages. Alphabet's Google in India is creating a market for itself by providing free Wi-Fi at railroad stations, teaching villagers to search online, and expanding its keyboards to accommodate 11 languages. "If you have a mission to connect the world, you have to go where the people are," explains Google's top executive.[1]

Did you know?

Alphabet, Google's parent company, rings up more than $75 billion in annual revenue and employs more than 70,000 people worldwide.

Wow! What a challenging world we live in. Just for a moment, think about how the world has changed in just the last few years. The U.S. economy has shown signs of improvement, the unemployment rate has declined, businesses are beginning to hire new employees, and the nation has a new Republican president—Donald Trump—who promises trade and economic reforms. And yet, there are still problems and many people worry about the future of the nation and the economy. In fact, people still remember the 2008 recession—one of the worst recession periods since the Great Depression in 1929. 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 Alphabet—the company profiled in the Inside Business opening case for this chapter—to adapt to changing business environments. To meet increased demand for its search engine services, cloud storage, and other technology products and services, Alphabet—the parent company of Google—and its employees were able to introduce even more new products and services, earn a profit, and expand to other countries around 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 televisions, toys, and tools to computers, cameras, and clothing. Our system gives

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

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 retailer Best Buy. 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. Next, we define *business*, noting how business organizations satisfy their customers' needs and earn profits. Then 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. Then 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 a need to improve productivity, to increase profits, and to become more competitive with not only firms in the United States but also with international firms located in other parts of the world, employees and managers began to ask the question: What do we do now? Although this is a fair question, it is difficult to answer. Certainly, for a college student taking business courses or an employee just starting a career, the question is even more difficult to answer. Yet there are still 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!

During a segment on a national television talk show, Joe Dudley, one of the world's most respected black business owners, gave the preceding advice to anyone who wanted 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 hair-care 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 his 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 *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 (see Figure 1-1). In addition to higher income, you will find at least five 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 Marriott International that are owned by thousands of stockholders. There are also employment opportunities with federal, state, county, and local governments and with charitable organizations such as the Red Cross and Save the Children. For help in deciding which career might be right for you, read Appendix B: Careers in Business, which appears on the text website.

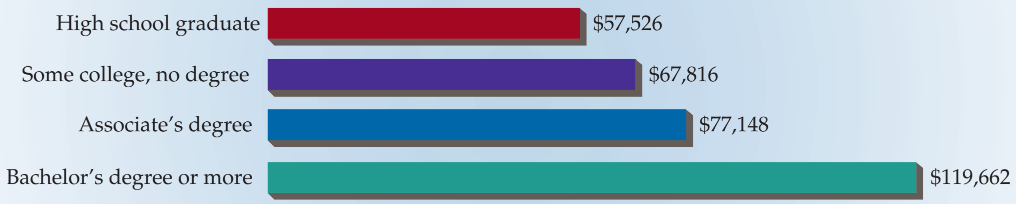
In addition to career information in Appendix B, a number of Internet websites provide information about career development.

To click your career into high gear, you can also use online networking to advance your career. 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 a person's choice of a career ultimately is just a reflection of what he or she values and holds 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, manager, or employee in marketing or technology or manufacturing or financial services. For another person, one goal may be obtaining a large salary and job security. 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.



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 December 22, 2016).

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 that 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 employee. 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 the differences among people in a workforce owing to race, ethnicity, and gender.

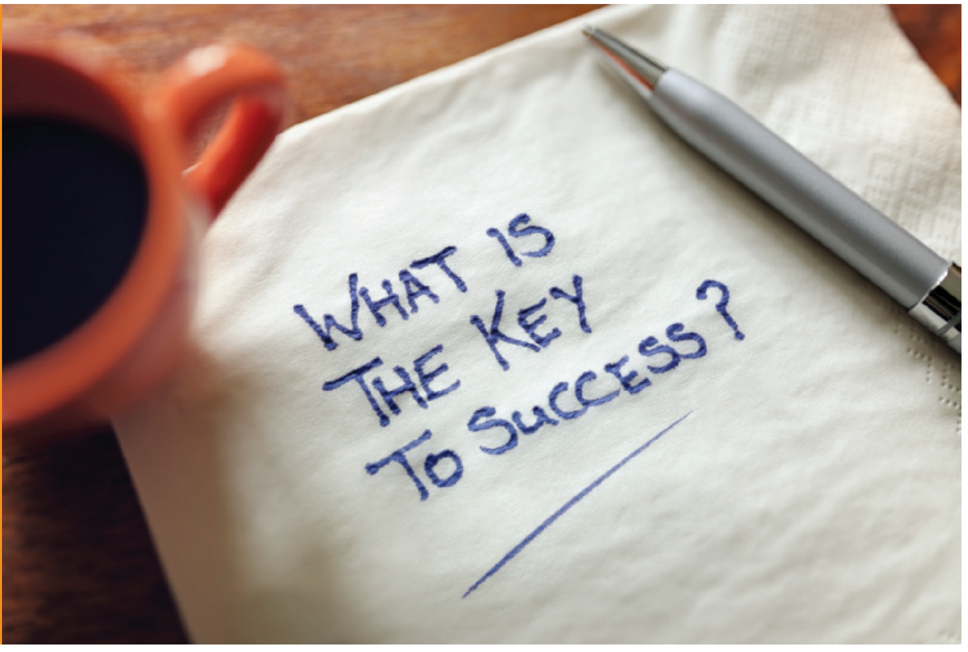
This course, your instructor, and all of the resources available at your college or university can help you to acquire the skills and knowledge you will need for a successful career. But do not underestimate your part in making your dream a reality. In addition to the job-related skills and knowledge you'll need to be successful in a specific career, 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

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. In addition to job skills and knowledge, experience—even part-time work experience—can make a difference when it is time to apply for the job you really want.

cultural (or workplace) diversity differences among people in a workforce owing to race, ethnicity, and gender

Is there a magic key for success? **The key for many people is finding a job that you enjoy coupled with a feeling of doing something that can make a difference. It helps to remember the old adage: If you find a job you like, you never have to go to work a day in your life.**



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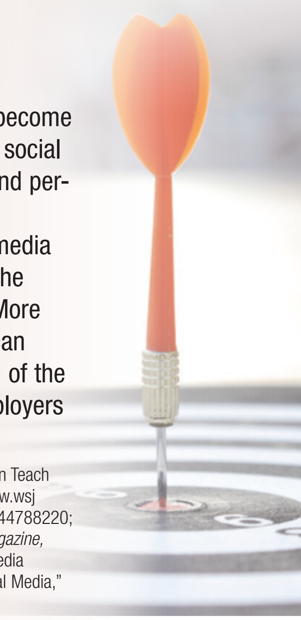
CAREERWORKS!

What Job Seekers Can Learn from Social Media Celebrities



Many celebrities have become masters at using social media to connect with fans and create excitement about their projects. As you think about applying for jobs in your chosen field, tune up your career communications with tips from social media stars.

First, think about the image you want to project and how you can use social media to do this in an authentic way. The singer Rihanna showcases her fashion sense on Instagram and uses Snapchat for quick takes on daily life. Movie star Vin Diesel tells personal stories on Facebook as well as promoting his films. Keep your image in mind when you post notes, photos, or videos, knowing that prospective employers are likely to check you out on LinkedIn and other social media sites.

Second, demonstrate that you're taking an active role in the world. Social media celebs often post about their involvement in causes and what's going on around them. Whether you want to save endangered animals or become a better cook or work for Habitat for Humanity, use social media to show that you have drive, commitment, and persistence—qualities that are prized by employers.

Third, learn to thrive on change. Just as social media trends can come and go at the drop of a hashtag, the same is true of shifts in business and technology. More than ever before, employers want applicants who can quickly adapt. Social media celebs like to be ahead of the curve; how can you do the same in a way that employers would recognize and appreciate?

Sources: Based on information in Deepa Seetharaman, "What Celebrities Can Teach Companies About Social Media," *Wall Street Journal,* October 14, 2015, www.wsj.com/articles/what-celebrities-can-teach-companies-about-social-media-1444788220; Sarah K. White, "7 Social Media Mistakes Job Seekers Must Avoid," *CIO Magazine,* July 23, 2015, www.cio.com/article/2951765/social-networking/7-social-media-mistakes-job-seekers-must-avoid.html; Patrick Gilloly, "Why You Need Social Media," *New York Times,* December 4, 2016, p. BU-8.

To Improve Your Management Skills Many employees want to become managers because managers often receive higher salaries and can earn promotions within an organization. Although management obviously can be a rewarding career, what is not so obvious is the amount of time and hard work needed to achieve the higher salaries and promotions. For starters, employers expect more from managers and supervisors than ever before. They also face increased problems created by increased global competition, the quest for improved quality, and the need for efficient use of the firm's resources.

To be an effective manager, 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 possess four very important skills.

- *Interpersonal skills*—The ability to deal effectively with individual employees, other managers within the firm, and people outside the firm.
- *Analytic skills*—The ability to identify problems correctly, generate reasonable alternatives, and select the "best" alternatives to solve problems.
- *Technical skills*—The skill required to accomplish a specific kind of work being done in an organization. Although managers may not actually perform the technical tasks, they should be able to train employees and answer technical questions.
- *Conceptual skills*—The ability to think in abstract terms in order to see the "big picture." Conceptual skills help managers understand how the various parts of an organization or an idea can fit together.

In addition to the four skills just described, 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. For example, Pierre Omidyar launched the eBay auction website in 1995. The website was dedicated to providing buyers and sellers with an honest and open marketplace. Today, more than 20 years later, whether you are buying or selling new or used, plain or luxurious, common place or luxury, trendy or one-of-a-kind, if it exists in the world, it probably is for sale on eBay.[4] Today, eBay's success is a result of Omidyar's original idea and his work to make the dream a reality.

Unfortunately, many business firms fail: Approximately 70 percent of small businesses fail within the first 10 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 Chapter 5, Small Business, Entrepreneurship, and Franchises, and selected topics and examples throughout this text will help you to decide whether you want to open your own business. The material in this course will also help you to overcome many of these problems.

To Become a Better Informed Consumer and Investor The world of business surrounds us. You cannot buy a home, a new Ford Fusion 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 to invest for the future. According to Julie Stav, Hispanic stockbroker-turned-author and radio personality, "Take $25, add to it drive plus determination and then watch it multiply into an empire."[5] The author of *Get Your Share* and other personal finance help books believes that 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. 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 to 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 both employees and entrepreneurs can be ethical and successful. Topics discussed in the boxed features include career success, ethics and social responsibility, the green, environmental movement, and social media.
- *Concept Checks* at the end of each major section within a chapter help you test your understanding of the major issues just discussed.
- *End-of-chapter materials* provide a chapter summary, a list of key terms, discussion questions, and a video 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 video 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 to develop the components that are included in a typical business plan.

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In addition to the text, a number of student supplements will help you to explore the world of business. We are especially proud of the website that accompanies this edition. There, you will find online study aids, such as key terms and definitions, and student PowerPoint slides. If you want to take a look at the Internet support materials available for this edition of ***Foundations of Business,***

1. Go to www.cengagebrain.com.
2. At the CengageBrain.com home page, enter the ISBN for your book (located on the back cover of your book) in the search box in the middle of the page. This will take you to the textbook website where companion resources can be found.

As authors, we want you to be successful. We know that your time is valuable and that your schedule is crowded with many different activities. We also appreciate the fact that textbooks are expensive. Therefore, we want you to use this text and get the most out of your investment. 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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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?

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

1-2 Business: A Definition

LEARNING OBJECTIVE

1-2 Define *business* and identify potential risks and rewards.

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 Cinemark Theatre 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.