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NINTH EDITION

BUSINESS ESSENTIALS

Ronald J. Ebert

Ricky W. Griffin

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To Fran, for bringing a lifetime of friendship, fun, and love
into our family. —R. J. E.

For Paul and Sherry—Friends for life. —R. W. G.

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From the Authors

RON EBERT and RICKY GRIFFIN

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 by 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 its “whys” and “hows.” 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. Extraneous material was removed, and new material was added. 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 relationships 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 added a special team ethics exercise at the end of each chapter and reinstated the companion individual ethics exercises that have been so popular in previous editions.

These are just some of the many changes, additions, and improvements we’ve made to the book.

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 as much as we enjoyed creating it. And who knows? Perhaps one day we can tell your story of business success to other students.

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Preface

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. Dr. Ebert draws upon more than 30 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 United States 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, Malaysian, and Romanian languages.

Dr. 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 received his Ph.D. in management from the University of Houston. After spending three years on the faculty at the University of Missouri-Columbia, he moved to Texas A&M University. During his career at Texas A&M he has taught undergraduate and graduate courses in management, organizational behavior, human resource management, and international business.

Dr. 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, Dr. Griffin has also authored or coauthored several leading textbooks and coedited three scholarly books. His books are used in more than 500 colleges and universities in the United States and abroad, 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 has served as President of the Southwest Division of the Academy of Management and on the Board of Directors of the Southern Management Association. Dr. Griffin is a Fellow of both the Academy of Management and the Southern Management Association. He has also won several awards for research and been supported by over \$400,000 in federal research funding.

Dr. 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. He currently serves as Head of the Department of Management.

What's New to This Edition

- Six kinds of chapter-ending involvement activities—to reinforce and practice the use of chapter concepts—are back by popular demand (see below for detailed descriptions)
- Hundreds of new real-life business examples added throughout the text, as requested by reviewers and users.
- Five brand new chapter-opening cases cover key concepts in Chapter 4 (The Global Context of Business), Chapter 6 (Organizing the Business), Chapter 7 (Operations Management and Quality), Chapter 10 (Human Resource Management and Labor Relations), and Chapter 15 (Money and Banking).
- Substantially updated Marketing Processes and Consumer Behavior (Chapter 11), with all-new sections covering the new product development process, customer relationship management, geo-demographic segmentation, and behavior segmentation.
- Five new sections added to illustrate the modernization of Pricing, Distributing, and Promoting Products (Chapter 12), including the role of e-intermediaries, non-physical storage (warehousing for digital data), direct interactive marketing, combining just-in-time and supply chains for a competitive advantage, as well as marketing strategies of distribution via supply chains.
- Four new sections cover the latest changes in Information Technology for Business (Chapter 13), including computer-aided manufacturing (CAM), applications software (“apps”), computer-based voice technology, and recent ethical issues arising from IT.

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 it 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 British Petroleum to iTunes and Starbucks to Google, these chapter case vignettes pique your interest at the beginning of the chapter and reinforce concepts you’ve learned throughout the chapter by adding a new case wrap-up with discussion questions at the end.

“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 upon entrepreneurs who have really made a difference.

“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 2008–2010 recession and the uncertainties of economic recovery.

We've also brought back several End-of-Chapter features that are designed to help you review and apply chapter concepts and build skills.

- **Summary of Learning Objectives** offers a quick guide for you to review the major topics covered in each chapter.
- **Key Terms** with page references to help reinforce chapter concepts.
- **Building Your Business Skills** activities allow you to apply your knowledge and critical thinking skills to an extended problem drawn from a wide range of realistic business experiences.
- **Exercising Your Ethics: Individual Exercises & Team Exercises** ask you to examine an ethical dilemma and think critically about how you would approach and resolve it.
- **Video Exercises** help you see how real-life businesses and the people who run them apply fundamental business principles on a daily basis.

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. While 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, and/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, 11, and 12.
- *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. In order for you to invest wisely, you must understand some basics, such as financial markets, business earnings, and the basic costs of investment. Chapters 4, 14, 15, 16, 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.

BUSINESS **ESSENTIALS**

1

The U.S. Business Environment

What Goes Up... Can Go Even Higher!

The sign in front of a Texas Mobil gasoline station summed it up nicely: The “prices” for the three grades of gasoline sold at the station were listed as “an arm,” “a leg,” and “your first born.” While the sign no doubt led to a few smiles from motorists, its sentiments were far from a laughing matter. The stark reality is that gas prices have fluctuated dramatically in recent years, reaching an all-time high of over \$4.00 per gallon in early 2008 before dropping back to less than \$2.00 per gallon in 2009. By 2011, though, prices were surging again, and some experts suggested that they could hit \$5.00 per gallon in the near future. Indeed, the dramatic price fluctuations that began in mid-2004 have left consumers, government officials, and business leaders struggling to cope with uncertainty about future prices.

What makes this gas crisis unusual is that it began with an unusual mix of supply, demand, and global forces. In the past, gas prices generally increased only when the supply was reduced. But the circumstances underlying the increases that started in 2004 and continued through 2011 were much more complex. First, global supplies of gasoline have been increasing at a rate that has more than offset the steady decline in U.S. domestic production of gasoline since 1972. As a result, the United States has been relying more on foreign producers and is, therefore, subject to whatever prices those producers want to charge. Second, demand for gasoline in the United States has continued to rise as a result of a

After reading this chapter, you should be able to:

- 1** Define the nature of U.S. business and identify its main goals and functions.
- 2** Describe the external environments of business and discuss how these environments affect the success or failure of any organization.
- 3** Describe the different types of global economic systems according to the means by which they control the factors of production.
- 4** 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.
- 5** Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

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 has helped spur higher prices once again. Political turmoil in the Middle East in 2011 also played a major role.

The price fluctuations have also led to a wide array of related consequences. Automobile manufacturers stepped up their commitment to making more fuel-efficient cars even as automobile sales

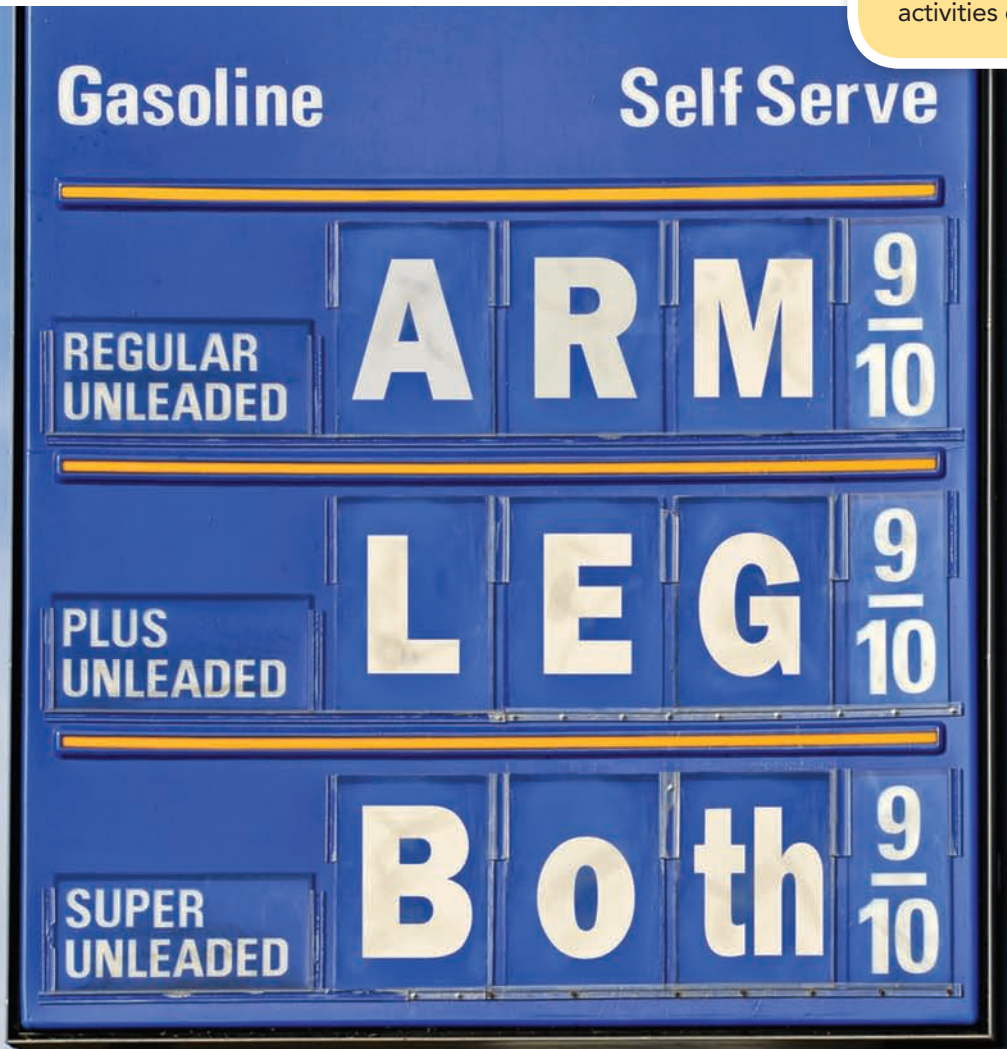
Heather A. Craig/Shutterstock

WHAT'S IN IT FOR ME?

The forces that have caused jumps in gas prices 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.

In this chapter, 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. But first, let's start with some business basics.

MyBizLab Where you see MyBizLab in this chapter, go to www.mybizlab.com for additional activities on the topic being discussed.



plummeted during the recent recession. Refiners posted record profits (indeed, some critics charged that the energy companies were guilty of price gouging). And even local police officers were kept busy combating a surge in gasoline theft, yet another indication that gas was becoming an increasingly valuable commodity!¹

Our opening story continues on page 24.

1 Define the nature of U.S. business and identify its main goals and functions.

The Concept of Business and the Concept of Profit

What do you think of when you hear the word *business*? Does it conjure up images of successful corporations, such as Apple and Google? Or of less successful companies, such as Borders Books and Kmart? Are you reminded of smaller firms, such as your local supermarket or favorite restaurant? Or do you think of even smaller family-owned operations, such as your neighborhood pizzeria or the florist down the street?

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.²

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 and/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, as large retailers like Circuit City and Linens-N-Things closed their doors in 2009, other firms profited by handling the inventory liquidations of those failed retailers. The opportunity always involves goods or services that consumers need and/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 new 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 environment, and their decision makers sometimes resort to unacceptable practices for their own personal benefit.

In this chapter, we begin our introduction to business by examining the environment in which businesses operate. This provides a foundation for our subsequent discussions dealing with economic forces that play a major role in the success and failure of businesses everywhere.



MyBizLab

Gain hands-on experience through an interactive, real-world scenario. This chapter’s simulation entitled Supply and Demand is located at www.mybizlab.com.

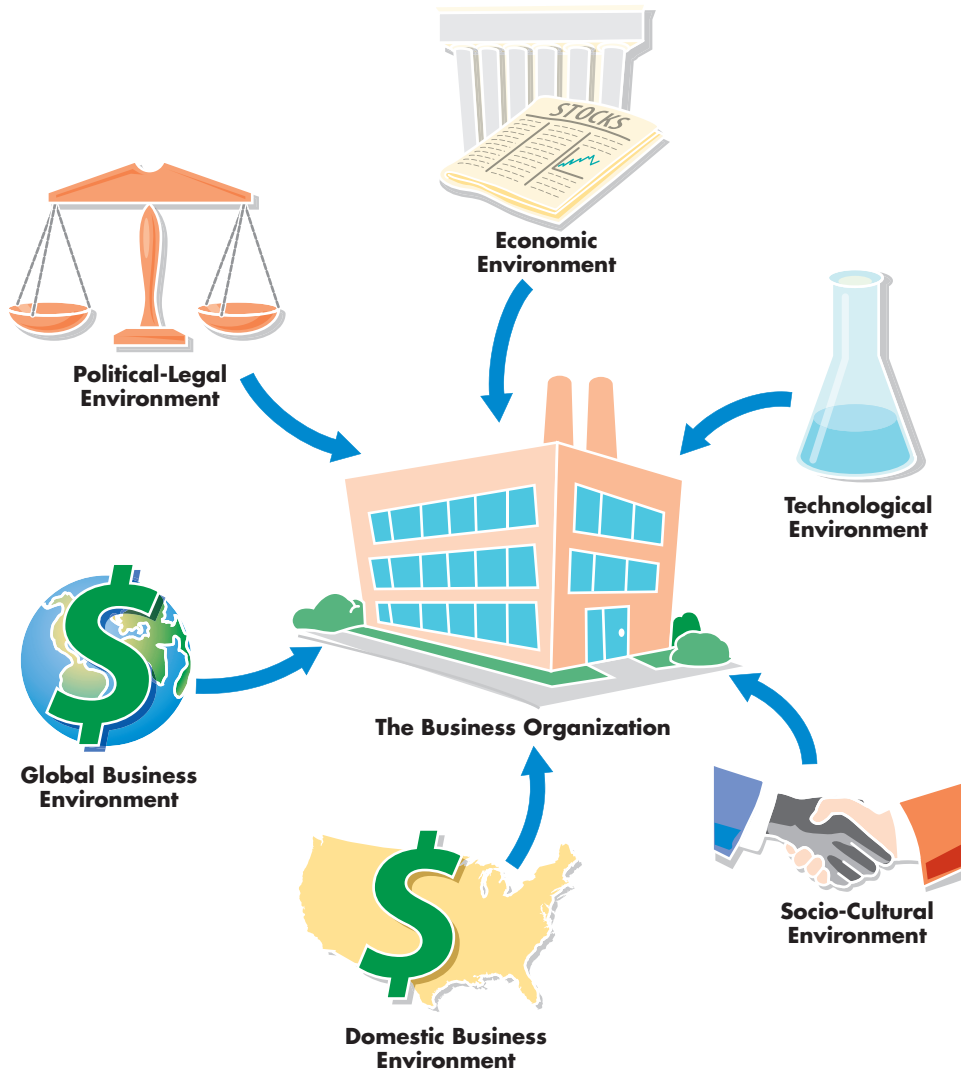


Figure 1.1 Dimensions of the External Environment

The External Environments of Business

2 Describe the external environments of business and discuss how these environments affect the success or failure of any organization.

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*.

Business organization that provides goods or services to earn profits	Profits difference between a business’s revenues and its expenses	External Environment everything outside an organization’s boundaries that might affect it
--	--	--



LE Robshaw/Alamy

Urban Outfitters is affected by the external environment in many different ways.

Domestic Business Environment

The **domestic business environment** refers to the environment in which a firm conducts its operations and derives its revenues. In general, businesses seek to be close to their customers, to establish strong relationships with their suppliers, and to distinguish themselves from their competitors. Take Urban Outfitters, for example. The firm initially located its stores near urban college campuses; it now also 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. And it has established a clear identity for itself within the domestic business environment that enables it to compete alongside such competitors as Aeropostale and dELiA*s.

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 2011 oil prices began to surge and companies with operations in the region took emergency measures to protect their employees. At a more immediate level, any given business is likely to be affected by international market opportunities, suppliers, cultures, competitors, and currency values. For instance, Urban Outfitters currently has stores in several other countries, including Canada, the United Kingdom, and Ireland, and has plans for other international expansion. But as it expands into other parts of the world, it will have to contend with different languages, more diverse cultures, and so forth. Even now, 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 in order 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 retail outlets in that country.

Political-Legal Environment

The **political-legal environment** reflects the relationship between business and government, usually in the form of government regulation of business. It is important for several reasons. First, the legal system defines in part what an organization can and can't do. For instance, Urban Outfitters is subject to a variety of political and legal forces, including product identification laws and local zoning requirements. Likewise, various government agencies regulate important areas, such as advertising practices, safety and health considerations, and acceptable standards of business conduct. Pro- or anti-business sentiment in government and political stability are also important considerations, especially for international firms. For instance, shortly after President Obama took office in 2009, a number of new regulations were imposed on businesses. And the president himself forced the resignation of General Motors' CEO in exchange for infusing new capital into the struggling automaker.

Sociocultural Environment

The **sociocultural environment** includes the customs, mores, values, and demographic characteristics of the society in which an organization functions. Sociocultural processes also determine the goods and services, as well as the standards of business conduct, that a society is likely to value and accept. For example, a few years ago, Urban Outfitters introduced a Monopoly-like game called Ghettopoly. The company received a lot of unfavorable publicity about the game, based on critics' charges that it made light of poverty and other social problems. In response, Urban Outfitters pulled it from shelves and discontinued its sale.

Economic Environment

The **economic environment** refers to relevant conditions that exist in the economic system in which a company operates. For example, if an economy is doing well enough that most people have jobs, a growing company may find it necessary to pay higher wages and offer more benefits in order to attract workers from other companies. But if many people in an economy are looking for jobs, as was the case during the 2009–2010 recession, a firm may be able to pay less and offer fewer benefits.

The rest of this chapter is devoted to the economic environment; the other environments of business are covered throughout the rest of the book.

Economic Systems

A U.S. business operates differently from a business in France or the People's Republic of China, and businesses in these countries differ from those in Japan or Brazil. A key factor in these differences is the economic system of a firm's *home country*—the nation in which it does most of its business. An **economic system** is a nation's system for allocating its resources among its citizens, both individuals and organizations.

3 Describe the different types of global economic systems according to the means by which they control the factors of production.

Factors of Production

A basic difference between economic systems is the way in which a system manages its **factors of production**—the resources that a country's businesses use to produce goods and services. Economists have long focused on four factors of production: *labor*, *capital*, *entrepreneurs*, and *physical resources*. In addition to these traditional four factors, *information resources* are now included as well. Note that the concept of factors of production can also be applied to the resources that an individual organization *manages* to produce goods and services.

Labor People who work for businesses provide labor. **Labor**, sometimes called **human resources**, includes the physical and intellectual contributions people make while engaged in economic production. Starbucks, for example, employs over 176,000 people.³ The firm's workforce includes the baristas who prepare coffees for customers, store managers, regional managers, coffee tasters, quality control experts, coffee buyers, marketing experts, financial specialists, and other specialized workers and managers.

Capital Obtaining and using labor and other resources requires **capital**—the financial resources needed to operate a business. You need capital to start a new business and

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

Global Business Environment the international forces that affect a business

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

Political-Legal Environment the relationship between business and government

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

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

Economic System a nation's system for allocating its resources among its citizens

Factors of Production resources used in the production of goods and services—labor, capital, entrepreneurs, physical resources, and information resources

Labor (Human Resources) physical and mental capabilities of people as they contribute to economic production

Capital funds needed to create and operate a business enterprise

Starbucks uses various factors of production, including (a) labor, such as this Starbucks barrista; (b) entrepreneurs, such as CEO Howard Schultz; and (c) physical resources, including coffee beans.



(a)



(b)



(c)

then to keep it running and growing. For example, when Howard Schultz decided to buy the fledgling Starbucks coffee outfit back in 1987, he used personal savings and a loan to finance his acquisition. As Starbucks grew, he came to rely more on Starbucks' profits. Eventually, the firm sold stock to other investors to raise even more money. Starbucks continues to rely on a blend of current earnings and both short- and long-term debt to finance its operations and fuel its growth. Moreover, even when the firm decided to close several hundred coffee shops in 2008 and early 2009, it employed capital to pay off leases and provide severance pay to employees who lost their jobs.

Entrepreneurs An **entrepreneur** is a person who accepts the risks and opportunities entailed in creating and operating a new business. Three individuals founded Starbucks back in 1971 and planned to emphasize wholesale distribution of fresh coffee beans. However, they lacked either the interest or the vision to see the retail potential for coffee. But Howard Schultz was willing to accept the risks associated with retail growth and, after buying the company, he capitalized on the market opportunities for rapid growth. Had his original venture failed, Schultz would have lost most of his savings. Most economic systems encourage entrepreneurs, both to start new businesses and to make the decisions that allow them to create new jobs and make more profits for their owners.

Physical Resources **Physical resources** are the tangible things that organizations use to conduct their business. They include natural resources and raw materials, offices, storage and production facilities, parts and supplies, computers and peripherals, and a variety of other equipment. For example, Starbucks relies on coffee beans and other food products, the equipment it uses to make its coffee drinks, paper products for packaging, and other retail equipment, as well as office equipment and storage facilities for running its business at the corporate level.

MANAGING IN TURBULENT TIMES

What Goes Around...

It seems like just yesterday. In 2005 the global economy was booming. In the United States, for example, business profits were soaring, jobs were plentiful, and home ownership was at any all-time high. The stock market reached unprecedented highs, pension plans were burgeoning, and new business opportunities were plentiful.

Fast-forward just five short years to 2010, and things looked a lot different. Business profits were down, hundreds of thousands of jobs were lost and unemployment claims soared, and mortgage foreclosures were the order of the day. The stock market plummeted, pension plans went broke, and it seemed like no one wanted to start a new business (and even those who did had a hard time getting financing).

What happened in this short period of time? Economists call it the business cycle. Historically, our economy has followed long periods of growth and prosperity, with periods of cutbacks and retreats. And that's where we were in 2010. During extended periods of prosperity, people sometimes start to act as though good times will last forever. They continue to bid up stock prices, for instance, far beyond rational value. They also take on too much debt, save too little money, and spend beyond their means. But things have a way of correcting themselves, and that's what happened when our economy went into recession beginning in 2008.

So what does the future hold? Well, while no one has a real crystal ball, most experts agree that the bad times will run their course, and then things will start looking up again. Indeed, by mid-2011



Lilli Day/iStockphoto.com

the stock market was inching back up and many businesses were cautiously hiring again. It may take awhile longer for growth to really take off again, but one day soon profits will again start to surge, businesses will embark on ambitious hiring plans, the stock market will surpass all previous highs, and business opportunities will again be plentiful. Until then, though, managers have to focus on following core business principles and do their best to steer their organizations through today's turbulence.

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Information Resources The production of tangible goods once dominated most economic systems. Today, **information resources**—data and other information used by businesses—play a major role. Information resources that businesses rely on include market forecasts, the specialized knowledge of people, and economic data. In turn, much of what they do results either in the creation of new information or the repackaging of existing information for new users. For example, Starbucks uses various economic statistics to decide where to open new outlets. It also uses sophisticated forecasting models to predict the future prices of coffee beans. And consumer taste tests help the firm decide when to introduce new products.

Types of Economic Systems

Different types of economic systems manage these factors of production differently. In some systems, all ownership is private; in others, all factors of production are owned or controlled by the government. Most systems, however, fall between these extremes.

Economic systems also differ in the ways decisions are made about production and allocation. A **planned economy** relies on a centralized government to control all

Entrepreneur individual who accepts the risks and opportunities involved in creating and operating a new business venture

Physical Resources tangible items organizations use in the conduct of their businesses

Information Resources data and other information used by businesses

Planned Economy economy that relies on a centralized government to control all or most factors of production and to make all or most production and allocation decisions