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# Business Essentials

TWELFTH EDITION

Ronald J. Ebert • Ricky W. Griffin



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# business essentials

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**Ronald J. Ebert**

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For Griffin Grace, Sutton Sloane, and Andrew Preston—I do this for them.  
—R. W. G.

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# about the authors

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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.



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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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# preface

## New to This Edition

### Chapter Opening Cases

All cases have been updated or replaced. Covering a wide variety of topics and organizations, including Netflix and Accor Sofitel, these real-world cases introduce relatable topics that draw students into the content.

### Current Events

The author has added new coverage of the likely impact of Donald Trump's election as president of the United States, the looming withdrawal of Great Britain from the European Union, the increasing diversity of the labor force, the continuing impact of social media, and the slow but steady growth of the U.S. economy. He has also added coverage on the emerging new relationship between the United States and Cuba. All data and statistics have also been updated to the most current information available.

### End-of-Chapter Activities

Five kinds of chapter-ending involvement activities—to reinforce and practice the use of chapter concepts—are back by popular demand!

### The Door Opens

In July 2015, the United States officially restored diplomatic relations with Cuba after 54 years of hostility. President Barack Obama, who was born the year Eisenhower severed ties with the Communist country, urged Congress to reopen the borders, reasoning that, "Instead of supporting democracy and opportunity for the Cuban people, our efforts to isolate Cuba despite good intentions increasingly had the opposite effect—cementing the status quo and isolating the United States from our



## questions & exercises

### QUESTIONS FOR REVIEW

- 4-1. What are the World Bank's four classifications of countries based on per-capita income?
- 4-2. What distinguishes an international business from a multinational business?
- ★ 4-3. What is the role of an independent agent in an international organization?
- 4-4. Why might a business enter a strategic alliance?

- ★ 4-7. Research and identify a quota imposed by your country on an imported product. Do you support that quota? If so, why?
- 4-8. Overproduction in a particular country can lead to a global glut in supply. The consequences of this to domestic producers can be disastrous. What steps can governments take to prevent dumping in their domestic markets?

### APPLICATION EXERCISES

- 4-9. The World Bank uses per-capita income to make distinctions among countries. Use Web or database research to

## Solving Teaching and Learning Challenges

Many students who take Introduction to Business courses have difficulty seeing the relevance of course topics to their lives and future careers. This reduces the willingness of many students to prepare for class and to be engaged during class. We use the following resources to engage students with the content and to highlight how Introduction to Business is relevant and important for their employability and careers.

### Applied Learning Opportunities Throughout Business Cases & Features

#### Managing in Turbulent Times

- Students learn from disappointments and challenges real companies face.

- New features look at recent IPOs, leadership in a virtual world, and workplace bullying.

## managing in turbulent times

### The Ups and Downs of Globalization

As markets move toward globalization, many countries are experiencing an identity crisis of sorts. The U.S. is rethinking its relationship with the World Trade Organization and NAFTA and reconsidering trade embargos with countries like Myanmar and Cuba. In Britain, after 43 years of strained relations with the European Union (EU), a large portion of the citizens pushed for the United Kingdom to exit the union. This movement took on the name “Brexit.”

The European Union was formed after World War II to foster economic cooperation, and has grown to become a “single market,” essentially allowing goods and people to move around as if the member states were one country. It has its own currency, the euro, which is used by 19 of the member countries (but not Great Britain), and its own parliament. Being part of the single market gave UK businesses easy access to all 500 million customers in the member countries and allowed UK consumers and companies to purchase goods and services from across the continent free of most tariffs and restrictions. It also allowed the relatively free movement of people across borders, much as the people of the US are free to move from state to state. Still, the British people continued to voice concerns over continued participation in the EU.

In 2015, as part of his campaign for re-election, Prime Minister David Cameron promised to put a referendum on the ballot asking voters to decide if they wanted to stay in the EU or exit. The expected logical outcome was to remain with the EU,



Creative Imagae/Shutterstock

but the pivotal issues turned out to be a British desire for sovereignty and a fear of immigrants pouring into the country. On the day of the vote, with a 72 percent turnout, 51.9 percent of voters opted to leave.<sup>12</sup> Cameron, who had relied on the benefits of belonging to the EU as the cornerstone of his administration, resigned the day of the vote. The actual exit is a two-year process that is expected to culminate in 2019.

What does this mean for businesses around the world? As the economy and political climates change, expect to see traditional, long-standing relationships, treaties, and trade organizations struggle to keep up with the ups and downs of globalization.

## Finding a Better Way

- This boxed feature reveals examples of organizations that are “finding a better way” to meet business challenges and describes how they are doing it.

## finding a better way

### Too Much of a Good Thing? China's Success Creates More Jobs in Mexico

In today's competitive global economy, businesses strive for every possible advantage. Many manufacturers, for example, locate their factories in countries that have an ample supply of low-cost skilled labor. During the 1980s and 1990s, the place to be was Mexico. Hundreds of factories were built just across the U.S.–Mexican border, and workers streamed to the region from other parts of Mexico for stable and well-paying jobs. But in the late 1990s, the world started to shift.

Mexican prosperity, fueled in part by its role as a center of manufacturing, led to increases in the cost of living, followed quickly by wage increases so workers could keep up. At about that same time, China began to emerge as an attractive manufacturing alternative. For instance, in 2003, wages in China were only one-third of the wages in Mexico. And there was certainly no shortage of workers eager to take steady jobs in factories making products for other countries. China's boom was Mexico's bust, as one company after another reduced or eliminated manufacturing there and moved to Asia.

In recent years, things have started to tilt back in Mexico's favor. As China's economy has flourished, its labor costs have crept higher and higher, so it's less of a bargain than it used to be. Whereas Mexican wages were once three times higher than wages in China, Mexican wages today are more than 40 percent less than those in China, according to research by Merrill Lynch.<sup>7</sup> When manufacturers factor in shipping costs (which have increased because of fuel prices), producing in Mexico may cost the same or less than in China. Time differences between the United States and China also can make it difficult to schedule videoconferences and telephone calls.



Vario Images GmbH & Co./ASA/Alamy Stock Photo

Several companies have also been burned by China's lack of protection for industrial and intellectual property.

Mexico is making enormous gains in the automobile sector. Companies such as Nissan, Honda, Volkswagen, and Mazda have invested billions of dollars in Mexican production vehicles, with over 3.4 million vehicles produced in 2016.<sup>8</sup> Eighty percent of these cars are exported to other countries, with the bulk being sent to the United States. Because of NAFTA, as well as other trade agreements, Mexico can export cars without tariffs to North and South America as well as Europe and Japan. According to Volkswagen's Vice President of Corporate Affairs in Mexico, “There's not another country in the world where you can do that.”<sup>9</sup> However, the future is uncertain, as the U.S. moves to renegotiate NAFTA and puts pressure on U.S. companies to dissuade them from investing in more projects in Mexico.

## Entrepreneurship and New Ventures

- This updated boxed feature shows students entrepreneurs who have really made a difference, some in large firms, others in smaller start-up companies.

# entrepreneurship and new ventures

## A Better Coconut Water

Founded in 2009, Harmless Harvest is the manufacturer and distributor of a popular line of organic coconut water that is available in stores across the United States. Douglas Riboud and Justin Guilbert saw an opportunity with the sudden popularity of coconut water, but they were troubled by environmental and economic concerns. After extensive research, Riboud and Guilbert concluded that the best-tasting coconut water could be produced from a single species of coconut from Thailand, in spite of lower yields and more complex cultivation. Unlike other producers, their coconut water is pasteurized through high-pressure treatment rather than heat, creating a raw, better-tasting product. According to Riboud, “The most important thing for us is taste. And the best we can do, the hardest job you can do as a manufacturer who works in food, is not screw up the ingredient you had in the first place.”<sup>15</sup>

Harmless Harvest has addressed environmental concerns by making sure that their product is organic. They made an early commitment to working with farmers to make sure that no harmful pesticides or synthetic fertilizers were used and worked to obtain organic certification. Although this process was time-consuming and costly, it assured Riboud and Guilbert that their entire supply chain was built upon their vision of sustainability.

Finally, Harmless Harvest has contributed to economic change in a number of ways. In 2015, Harmless Harvest combined its Nam Hom coconut water with organic coffee, creating a drink with 50 mg of naturally occurring caffeine, the equivalent of a shot of espresso. The Peruvian cooperative that harvests Harmless Harvest's organic coffee beans has a focus on empowering women and the impoverished, with over 50 percent of members located in areas of extreme poverty. The organization has seen a significant decrease in domestic



Brent T. Madison/Alamy Stock Photo

abuse against women, as well as an increased priority on educating children to strengthen the community as a whole. Guilbert notes that, “Sourcing from this cooperative is just another proof that better products can be made to benefit everyone involved. It's worth the extra effort.”<sup>16</sup>

## Reach Every Student with MyLab Intro to Business

MyLab is the teaching and learning platform that empowers you to reach every student. By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and improves results for each student. Learn more at [www.pearson.com/mylab/intro-to-business](http://www.pearson.com/mylab/intro-to-business).

- **Deliver trusted content:** You deserve teaching materials that meet your own high standards for your course. That's why we partner with highly respected authors to develop interactive content and course-specific resources that you can trust—and that keep your students engaged.
- **Empower each learner:** Each student learns at a different pace. Personalized learning pinpoints the precise areas where each student needs practice, giving all students the support they need—when and where they need it—to be successful.
  - The **Study Plan** gives students personalized recommendations, practice opportunities, and learning aids to help them stay on track.
  - **Dynamic Study Modules** help students study chapter topics on their own by continuously assessing their knowledge application and performance in real time.

PEARSON
return Michelle Zeng

Ch12a

QUESTION	ANSWER
What is the general term for the end user who buys products?	<div style="margin-bottom: 5px;"> <input type="radio"/> Consumer         </div> <div style="margin-bottom: 5px;"> <input type="radio"/> Specialty buyer         </div> <div style="margin-bottom: 5px;"> <input checked="" type="radio"/> <b>I AM SURE</b> Convenience buyer         </div> <div style="margin-bottom: 5px;"> <input type="radio"/> Industrial buyer         </div> <div style="margin-bottom: 5px;"> <input type="radio"/> I DON'T KNOW YET         </div> <div style="text-align: right; margin-top: 10px;"> <span style="background-color: #0070C0; color: white; padding: 5px 15px; border-radius: 5px; cursor: pointer;">submit</span> </div>

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## Wearing the Hats

There's an old adage about people wearing different "hats." In general, this means that people usually have 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 a variety of different hats that you might wear:

- **The Employee Hat.** One hat is as an employee working for a business. Many people wear this hat during the early stages of their career. To wear the hat successfully, you will need to understand your place in the organization—your job, how to work with your co-workers and boss, 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 people in Chapter 10, as well as in several other places in this book.
- **The Employer or Boss Hat.** It is also very likely that one day other people will be working for you. You'll still need to know your own job responsibilities, of course. But you'll now also need to understand how to manage other people—how to understand, lead, and motivate them and the social and legal parameters that affect how you deal with them. Chapters 3, 5, 8, and 9 provide a lot of information about how you can best wear this hat, although the role of manager runs throughout the entire book.
- **The Consumer Hat.** Even if you don't work for a business, you will still wear the hat of a consumer. Whenever you fill your car at Shell, buy an airline ticket from Delta and charge it on Visa, order a new backpack from Amazon, bid for something on eBay, buy clothes at H&M, or download a song from iTunes, you're consuming products 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 is that of an investor. You may buy a business or work for a company that lets you buy its stock. You may also invest in other companies by buying their stock or shares of a mutual fund. For you to invest wisely, you must understand some basics, such as financial markets, business earnings, and the basic costs of investment. Chapters 4, 15, 16, 17, and Appendix III will help you learn how to best wear this hat.

Many people wear more than one of these hats at the same time. Regardless of how many hats you wear or when you may be putting them on, it should be clear that you have in the past, do now, and will in the future interface with many businesses in different ways. Knowing how to best wear all these hats is what this book is all about.

## Developing Skills for Your Career

For students to succeed in a rapidly changing job market, they should be aware of their career options and how to go about developing a variety of skills. In this book and MyLab, we focus on developing these skills in the following ways:

**Communication:** Communication is covered in several places throughout the book. For example, Chapter 5 discusses how leaders communicate the corporate culture, while Chapter 6 discusses how managers communicate the delegation process and how managers can use communication to offset errors in the grapevine.

**Critical Thinking:** Chapter 9 devotes specific attention to the decision-making process. Chapter 11 discusses the research process and research methods. Collaboration teams and team-based methods of organizing are discussed in Chapters 6 and 8. At the end of each chapter, there is also a continuing team exercise.

**Business Ethics and Social Responsibility:** Chapter 2 is entirely devoted to ethics and social responsibility.

**Information Technology Application and Computing Skills:** Chapter 14 is devoted to information technology application and computing skills for business.



## Instructor Teaching Resources

This program comes with the following teaching resources.

Supplements available to instructors at <a href="http://www.pearsonglobaleditions.com">www.pearsonglobaleditions.com</a>	Features of the Supplement
<b>Instructor's Manual</b> authored by Carol Davis Wright from California State University, Monterey Bay	<ul style="list-style-type: none"> <li>• Chapter-by-chapter summaries</li> <li>• Examples and activities not in the main book</li> <li>• Teaching outlines</li> <li>• Teaching tips</li> <li>• Solutions to all questions and problems in the book</li> </ul>
<b>Test Bank</b> authored by Susan Schanne from Eastern Michigan University	4,000 multiple-choice, true/false, short-answer, and graphing questions with these annotations: <ul style="list-style-type: none"> <li>• Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis)</li> <li>• Type (Multiple-choice, true/false, short-answer, essay)</li> <li>• Topic (The term or concept the question supports)</li> <li>• Learning outcome</li> <li>• AACSB learning standard (Ethical Understanding and Reasoning, Analytical Thinking Skills, Information Technology; Diverse and Multicultural Work, Reflective Thinking, Application of Knowledge)</li> <li>• Page number in the text</li> </ul>
<b>Computerized TestGen</b>	TestGen allows instructors to: <ul style="list-style-type: none"> <li>• Customize, save, and generate classroom tests</li> <li>• Edit, add, or delete questions from the test item files</li> <li>• Analyze test results</li> <li>• Organize a database of tests and student results</li> </ul>
<b>PowerPoints</b> authored by Jeffrey Anderson from Ohio University	Slides include all the graphs, tables, and equations in the textbook. PowerPoints meet accessibility standards for students with disabilities. Features include, but are not limited to: <ul style="list-style-type: none"> <li>• Keyboard and screen reader access</li> <li>• Alternative text for images</li> <li>• High color contrast between background and foreground colors</li> </ul>

# 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.

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I would also like to welcome Joe Cooke to the team. Joe is a professor at Walla Walla Community College. Joe helped update or replace the boxes and cases throughout the book and revised and enhanced all of the end-of-chapter pedagogy. I would also like to acknowledge and express my gratitude to Ron Ebert. Ron and I worked on this book together for many years and his imprint can still be found in many different places.

Finally, 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.

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  
2017

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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 Global Business Environment

PART 1 | THE CONTEMPORARY BUSINESS WORLD



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**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 global 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 global market, identify the elements of private enterprise, and explain the various degrees of competition in the global economic system.
- 1-4** **Explain** the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.
- 1-5** **Learn** about the skills you will gain through this text.

