# Chapter 1

# DEVELOPING A BUSINESS MINDSET

**Chapter Overview**

An introduction to business course offers something to everyone, from students who are still deciding whether business is the right major for them to workers who already have practical experience in the business world. This chapter introduces some fundamental concepts of business, including the definitions of business, major types of business as well as the positive and negative impact of business in society. It also addresses the multiple environments in which businesses exist and operate. It identifies the main functional areas of business, and explores various careers in the business world and the key success factors of such careers. Finally, it discusses the seven components of professionalism.

**Chapter Outline**

I. Understanding What Businesses Do

A. A **business** is a profit-seeking organization that provides goods and services designed to satisfy customers’ needs

1. A company’s **business model** is an outline of how the business intends to generate **revenue** (money received through the sale of goods and services)

 2. If revenue exceeds expenses, the business makes a **profit**

B. Businesses add value for customers by transforming lower-value inputs into higher-value inputs

1. Businesses seek a **competitive advantage** that makes its products more appealing than those of its competitors

2. Businesses make decisions involving some risk in anticipation of receiving future rewards

C. Major types of businesses

1. **Not-for-profit** (nonprofit) organizations such as charities, museums, and most universities do not have a profit motive

2. **Goods-producing** **businesses** create value by making tangible or intangible goods. Goods-producing may be capital-intensive and this may be a **barrier to entry**

3. **Service businesses** create value by performing activities that deliver some benefit to customers

II. Making the Leap from Buyer to Seller

A. A **business mindset** considers decisions to be made and problems to be overcome before companies can deliver goods/services that satisfy customers’ needs

B. Businesses contribute to society through:

 1. offering valuable goods and services

 2. providing employment

 3. paying taxes

 4. contributing to national growth, stability and security

C. Businesses can have negative effects on society such as:

 1. generating pollution and creating waste

 2. creating health and safety risks

 3. disrupting communities

 4. causing financial instability

III. Recognizing the Multiple Environments of Business

A. The **social environment** consists of trends and forces in society at large, such as population trends

1. A company is responsible to its **stakeholders** (all those groups affected by its activities)

B. The **technological environment** is comprised of forces resulting from the practical application of science to innovations, products, and processes

C. The **economic environment** encompasses conditions and forces that:

 1. affect the cost and availability of goods, services and labor

 2. shape the behavior of buyers and sellers

D. The **legal and regulatory environment** is comprised of laws and regulations at local, state, national, and international levels

E. The **market environment** is composed of:

 1. a company’s target customers

 2. buying influences that shape those customers’ behaviors

 3. a company’s competitors

IV. Identifying the Major Functional Areas in a Business Enterprise

A. **Research and development (R&D)** is the functional area responsible for conception and design of products

1. Companies use **information technology (IT)** systems to promote communication and information usage

B. Manufacturing, production and/or operations – the functional area charged with producing the goods and/or services of the company. It includes functions such as purchasing, logistics and facilities management

C. Marketing, sales, distribution and customer support – customer-related functions that provide customers with the right product at the right price and place and then make sure customers have needed support and information. The advent of social media has put buyers on more equal footing with sellers

D. Finance and accounting – responsible for all aspects of a firm’s finances, including financial planning, monitoring, and reporting

E. Human resources – responsible for the recruitment, hiring, development, and support of employees

F. Business services – other services performed by in-house staff, external firms, or a combination of the two in areas such as law, banking, and real estate

V. Exploring Careers in Business

 A. Operations Manager/**Operations management**

 B. Human Resources Specialist

 C. Information Technology Manager (IT)

 D. Marketing Specialist

 E. Sales Professional

 F. Accountant

 G. Financial Manager

VI. Achieving Professionalism

A. **Professionalism** is the quality of performing at a high level and conducting oneself with purpose and pride

B. Professionalism encompasses seven traits:

1. Striving to excel

2. Being dependable and accountable

3. Being a team player

4. Communicating effectively

5. Demonstrating **etiquette**

6. Making ethical decisions

 7. Maintaining a confident, positive outlook

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**Classroom Activities**

***Break-out Group Discussion*: *Why are you taking the course?***

Goal: Asks students to name the top three reasons they are taking this course in an effort to introduce students to each other and to better understand their background and motivations.

Time Limit: 15 minutes.

Details:

1. Break students into groups of five. (2 minutes)
2. Ask each group to come up with the top three reasons students are taking this introduction to business course, e.g. business majors deciding whether business is the right major for them, non-business majors seeking business knowledge, and workers looking for a theoretical foundation for their practical business experience, etc. Ask each group to finalize their top three reasons from notes and then elect group representatives/speakers. Use votes and tally if necessary. (10 minutes)
3. Ask representatives/speakers from each group to present their results to the whole class, either verbally or written (on the blackboard). (3 minutes)

Summary: Instructor summarizes the top reasons that are common across groups, describes the various student segments, and reassures them that the course has something to offer everyone.

***In-Class Activity*: *Career Track Options***

Goal: Ask students to vote on the seven types of career track options outlined in the section “Exploring Careers in Business” to determine which option is the most popular for the class as a whole. Have students discuss the pros and cons of the various options in order for them to understand that each option has its own advantages and disadvantages.

Time Limit: 10 minutes.

Details:

1. On the blackboard, list the seven types of career track options as outlined in the section “Exploring Careers in Business” and assign a number (1 to 7) to each of the options.
2. Have students vote which option they are most interested in pursuing as a professional career by raising their hands. Make it clear before the vote that each student can only vote once. Then go through the career track options on the list from 1 to 7 and have students raise their hands when their favorite option is mentioned. Tally up the votes for each option.
3. Rank the seven options in order of popularity. Pick the most popular option first and ask students to name one or two pros and cons for that option. For instance, possible pros of the career option “Finance and Accounting” are “higher pay” and “more job security”, and possible cons are “math-heavy” and “boring.” Help students understand that even the most popular career options have disadvantages.
4. If time allows, pick the next most popular career track option(s) and brainstorm more pros and cons.

**End-of-Chapter**

# Chapter 1 Behind The Scenes

***Yolanda Diaz Grows Mirador Enterprises into a Multimillion-Dollar Success Story***

### Critical Thinking Questions

**1.1**

**Would Yolanda Diaz have been as successful if she had started her company right out of college, rather than waiting until she’d had a decade of corporate experience? Why or why not?**

Her degree in accounting from the University of Texas at El Paso and 10 years of experience supervising accounting departments in several other companies taught her what it takes to achieve and maintain profitability. Those jobs also let her hone her management and leadership skills, essential traits for anyone who wants to grow a company. Without this experience she might have had trouble navigating the hurdles during the shaky start-up phase that many new businesses never get past. (LO: 2, AACSB: Interpersonal relations and teamwork)

**1.2**

**If your personal credit is shaky at the moment and you don’t have a lot of cash to invest in a new business, what steps could you take to get a new company going?**

In these circumstances, individuals could start small, perhaps at a part-time endeavor in their spare time. Working out of their own homes, without additional employees, could keep costs down. Other options would be to get loans from friends and family, or to seek out grants and assistance programs for new businesses. (LO: 2)

**1.3**

**Are programs that help specific groups of entrepreneurs, such as the SBA program that helps minority- and woman-owned businesses, fair to those who don’t qualify? Explain your answer. (You can read more about this particular program, the “8(a) Business Development Program,” on the SBA website.)**

Students’ responses will depend on personal views and experiences. Students might reply that it is unfair to show favoritism to particular groups of individuals. Others might feel that these programs seek to redress imbalances in the opportunities offered individuals in the categories it targets. (LO: 3, AACSB: Ethical understanding and reasoning, Diverse and multicultural work environments)

*Learn More Online*

Students’ responses will depend, in large part, on the material currently posted on the website. However, some of the ways Mirador uses its online presence to present its qualifications to potential customers include: listing Mirador’s customers, presenting news articles about the company, and citing its past performance highlights. (LO: 3, AACSB: Information technology)

## Test Your Knowledge

### Questions for Review

1.4 What is a business model?

A business model is a clear, simple outline of how the business intends to generate revenue. (LO: 1)

1.5 What is moral hazard?

If individuals and companies believe they can pursue rewards without facing the risks that should be attached to those pursuits, they are more likely to engage in irresponsible and even unethical behavior—a situation known as moral hazard. (LO: 1, AACSB: Ethical understanding and reasoning)

1.6. What are four ways that business can benefit society?

Business can benefit society by offering valuable goods and services, providing employment, paying taxes, and contributing to national growth, stability, and security. (LO: 2)

1.7. Do all companies have an R&D function? Explain your answer.

No. Many companies simply resell products that other firms make or continue to make the same goods or perform the same services year after year. (LO: 4)

 1.8.How does the role of a financial manager different from the role of an

 accountant?

A financial manager is responsible for planning, while an accountant is responsible for monitoring and reporting. (LO: 5)

1.9 What is professionalism?

Professionalism is the quality of performing at a high level and conducting oneself with purpose and pride. True professionals exhibit seven distinct traits: striving to excel, being dependable and accountable, being a team player, communicating effectively, demonstrating a sense of etiquette, making ethical decisions, and maintaining a positive outlook. (LO: 6)

### Questions for Analysis

* 1. **Does a downturn in the economy hurt all companies equally? Provide several examples to support your answers.**

No. For instance, the latest recession has hurt luxury department stores (e.g. Saks Fifth Avenue, Neiman Marcus) significantly more than discount retailers such as Walmart or Target. In a downturn economy, necessity goods such as food and medicine tend not to suffer as much of a decrease in sales compared to discretionary spending items such as spa or massage services. (LO: 3, AACSB: Analytical thinking)

1.11Why is mobile connectivity considered a disruptive technology?

Disruptive technologies are those that fundamentally change the nature of an industry. Some have called mobile connectivity the biggest technology shift since the Internet. For millions of people around the world, a mobile device is their primary, if not their only way, to access the Internet. Mobile has become the primary communication tool for many business professionals as well. (LO: 3, AACSB: Information technology)

* 1. **Ethical considerations. Is managing a business in ways that reflect society’s core values always ethical? Explain your answer.**

Students’ answers may vary according to their personal opinions, but their answers may reflect some of the following concerns:

* There are ethical dilemmas, or situations in which a business must choose between conflicting but arguably valid options.
* Each of these options may reflect core values of various segments of society.
* Nevertheless, a choice needs to be made, which means the chosen option may reflect the core values of certain segments of society but still be considered as ethically unsound by other segments of society. (LO: 6, AACSB: Ethical understanding and reasoning)

1.13 How can business knowledge and skills help social entrepreneurs reach their goals?

Social entrepreneurs, people who apply entrepreneurial strategies to enable large-scale social change, use business concepts as well. For example, such entrepreneurs will need to use HR skills, in order to manage the people that will be involved in working toward their goals. They will also need to obtain financing, so finance and accounting skills will be necessary. Technology is essential to almost every facet of life these days, and would be vital in organizing information and resources, as well as using online presence and social media to promote the cause. (LO: 2, AACSB: Analytical thinking)

### Questions for Application

* 1. How will you be able to apply your experience as a consumer of educational services to the challenges you’ll face in your career after graduation?

Students’ answers will vary, but may reflect some of the following key points:

* As a consumer of educational services, a student has likely learned a great deal about such services in the context of business offerings, thus leaning a lot about business principles.
* For instance, a student understands the impact of good or poor customer service related to educational services and thus understands the needs and wants of customers and how such needs and wants may best be met by businesses and other organizations.
* Such understanding of businesses and customers can be transferable to post-graduation careers and can help a student deal with challenges that exist in such careers. (LO: 2, AACSB: Reflective thinking)

1.15 What are some of the ways a company in the health-care industry could improve its long-term planning by studying population trends?

Students’ answers will vary, but may include the following:

* Studying population trends will help the health care industry in gauging future demand for medical and healthcare services.
* For example, one major population trend is that the baby boomers are reaching retirement age. That translates to increasing demand for both pharmaceutical drugs and medical services that will serve the aging baby boomer generation, e.g. drugs and treatment for diseases that are prevalent for elders such as heart disease and cancer.
* The healthcare industry may also choose to focus on preventative care such as educating baby boomers on nutrition and exercise and provide corresponding goods and services. (LO: 3, AACSB: Diverse and multicultural work environments)
	1. Identify at least five ways in which your life would be different without digital technology. Would it be more or less enjoyable? More or less productive?

Students’ answers will vary. Possible examples of digital technology that has changed students’ lives may include the following: email, Internet search engines (Google), GPS technology/Google Maps, smart phones (Blackberry, iPhone), digital photos and videos, e-tailing (Amazon.com, eBay), social network sites (Facebook), other sites such as Twitter and YouTube, etc. Mobile connectivity, the ability to be connected to other users and information sources at all times, may be cited as both a positive and a negative. The same technologies that enable people to be more productive can also be used to waste time. (LO: 3, AACSB: Information technology)

* 1. **Identify three ways in which the principles of professionalism described in this chapter can make you a more successful student.**

Student answers may vary; however, some possible ideas follow:

* “Striving to excel” inspires students to be the best they can be academically and in extracurricular activities.
* “Being a team player” helps students do well in team class projects that are becoming increasingly popular in colleges and universities.
* “Communicating Effectively” enables students to excel in class discussions, presentations and written assignments. (LO: 6, AACSB: Reflective thinking)

## Expand Your Knowledge

### Discovering Career Opportunities

**Your college’s career center offers numerous resources to help you launch your career. Imagine that you write a blog for students at your college, and you want to introduce them to the center’s services. Write a blog post of 300 to 400 words, summarizing what the center can do for students.**

### Students’ blog content will vary but it may involve resume and cover letter writing, interviewing preparation, and inviting firms to recruit on campus, etc. (LO: 2, AACSB: Written and oral communication)

*Improving Your Tech Insights: Digital Products*

The category of digital products encompasses an extremely broad range of product types, from e-books to music and movie files to software and instruction sets for automated machinery. Digital products are commonplace these days, but the ability to remotely deliver product value is quite a staggering concept when you think about it. (As just one example, consider that a single digital music player or smartphone can carry the equivalent of two or three thousand tapes or CDs.) Supplying music over the Internet is amazing enough, but nowadays even *tangible* products can be delivered electronically via three-dimensional (3D) printing: The technology that deposits layers of ink in inkjet printers is being adapted to deposit layers of other liquefied materials, including plastics and metals. 3D printers are already being used to “print” product prototypes, architectural models, and a variety of electronic and mechanical components. The price of the technology is dropping far enough that 3D printing is starting to become a possibility for hobbyists, independent inventors, and small businesses. Cubify, the maker of the Cube 3D home printer, promotes the ability to make your own toys or jewelry and create parts to repair things around the house.

**Choose a category of products that has been changed dramatically by the ability to deliver value digitally. In a brief email message to your instructor, explain how digital technology revolutionized this market segment**.

Students’ email messages may vary depending upon selection of technology. (LO: 3, AACSB: Information technology)

## Practice Your Skills

### Sharpening Your Communication Skills

**Select a local service business where you have been a customer. How does that business try to gain a competitive advantage in the marketplace? Write a brief summary describing whether the company competes on speed, quality, price, innovation, service, or a combination of these attributes. Be prepared to present your analysis to your classmates.**

Student answers will vary depending on the service they investigate. Whatever they choose to investigate, they are likely to notice one major area of competition. Help students see the ways in which competition takes place on several levels at the same time, and ask them to consider how these areas work together to give the company a competitive advantage over others. (LO: 1, AACSB: Written and oral communication)

### Building Your Team Skills

**In teams assigned by your instructor, each member will first identify one career path (such as marketing or accounting) that he or she might like to pursue after graduation and share that choice with the rest of the team. Each team member will then research the others’ career options to find at least one significant factor, positive or negative, that could affect someone entering that career. For example, if there are four people on your team, you will research the three careers identified by your three teammates. After the research is complete, convene an in-person or online meeting to give each member of the team an informal career counseling session based on the research findings.**

Student answers will vary depending on the careers they research. (LO: 5, AACSB: Analytical thinking)

### Developing Your Research Skills

Gaining a competitive advantage in today’s marketplace is critical to a company’s success. Research any company that sounds interesting to you and identify the steps it has taken to create competitive advantages for individual products or the company as a whole.

1.18 What goods or services does the company manufacture or sell?

Student answers may vary depending upon selection of company. (LO: 1)

1.19 How does the company set its goods or services apart from those of its competitors? Does the company compete on price, quality, service, innovation, or some other attribute?

Student answers may vary depending upon selection of company. (LO: 1)

**1.20 How do the company’s customer communication efforts convey those competitive advantages?**

Student answers may vary depending upon selection of company. (LO: 1, AACSB: Written and oral communication)

## Assisted-graded Questions

1.21 If individual accountability is an essential element of professionalism, why is it also important to be an effective team player? Explain your answer.

Professionals know that they are contributors to a larger cause, that it’s not all about them. Just as in athletics and other team efforts, being a team player in business is something of a balancing act. On the one hand, you need to pay enough attention to your own efforts and skills to make sure you’re pulling your own weight. On the other hand, you need to pay attention to the overall team effort to make sure the team succeeds. Remember that if the team fails, you fail, too. If each member of the team is personally accountable, then the team as a whole will function more smoothly and productively. (LO: 6, AACSB: Interpersonal relations and teamwork)

1.22 Do laws and regulations always restrict or impede the efforts of business professionals, or can they actually help businesses? Explain your answer.

Laws and regulations do not always restrict or impede the efforts of businesses. For instance, intellectual property right laws such as those governing copyrights, patents and trademarks help protect businesses from firms and individuals who may infringe on such rights.

 (LO: 3)

**CHECKPOINTS**

**LEARNING OBJECTIVE 1: Explain the concept of adding value in a business, and identify the major types of business.**

**Critical thinking:**

(1) What inputs does a musical group use to create its outputs?

Students’ responses may vary but the following addresses some possible answers. The inputs for a musical group may include labor (musicians), capital (financial resources for the group), equipment (musical instruments), information (musical knowledge) and creativity.

(2) Can not-for-profit organizations benefit from practices used by for-profit companies? Why or why not?

Yes. Many of the business principles and practices utilized by for-profit companies, such as those in the business functional areas of marketing, finance, management, technology and human resources can also be used by not-for-profit organizations.

**It’s your business:**

(1) Think back to the last product you purchased; how did the companies involved in its manufacture and sale add value in a way that benefited you personally?

Students’ responses will vary depending upon the different products they last purchased and corresponding firms that manufactured such products.

(2) Can you see yourself working for a not-for-profit organization after you graduate? Why or why not?

Students’ responses will vary depending on personal interests.

**LEARNING OBJECTIVE 2: List three steps you can take to help you make the leap from consumer to business professional.**

**Critical thinking:**

(1) How can consumer experiences help a business professional excel on the job?

Consumer experiences allow one to know a great deal about businesses, including aspects such as the quality of products or customer services, which will in turn help one excel on the job as a business professional.

(2) If organized businesses didn’t exist and the economy was composed of individual craftspeople, would the result be more or less pollution? Explain your answer.

There wouldn’t necessarily be less pollution, because organized businesses that operate under the principles of sustainable development might conceivably produce less pollution than craftspeople that use a lot more energy or employ practices that hurt the environment.

**It’s your business:**

(1) How might you contribute to society as a business professional?

Students’ responses will vary depending on personal experiences and opinions.

(2) What is your view of business at this point in your life? Negative? Positive? A mixture of both?

Students’ responses will vary depending on personal opinions.

**LEARNING OBJECTIVE 3: Discuss the five major environments in which every business operates.**

**Critical thinking:**

(1) Is it wise for cities and states to compete with each other to be more business friendly, specifically with regard to lower tax rates on businesses? Why or why not?

It may not be wise for such competition to get out of control because each competing state will hurt from low tax revenues.

(2) Even though it never sells directly to consumers, does a company such as Boeing need to pay attention to population trends? Why or why not?

Yes, because consumers account for a large proportion of the airline passengers and any trends affecting them will affect airlines, which ultimately will affect Boeing.

**It’s your business:**

1) How has technology made your educational experience in college different from your experience in high school?

Students’ responses will vary depending on personal experiences.

(2) Have current economic conditions affected your career-planning decisions in any way?

Students’ responses will vary depending on personal experiences.

**LEARNING OBJECTIVE 4: Explain the purpose of the six major functional areas in a business enterprise.**

**Critical thinking:**

(1) Do companies that deliver services rather than creating tangible goods ever need to engage in research and development? Why or why not?

Yes. Even though services are intangible, service companies still engage in research and development to create new services or add new features for existing services to better serve their customers and attract new customers.

(2) Why is good customer support essential to the success of marketing and sales activities?

Because customer support goes to work after the sale, making sure customers have the support and information they need, thus improving customer satisfaction. Such efforts are important in developing repeat customers and building customer loyalty.

**It’s your business:**

(1) Think of a strongly positive or strongly negative experience you’ve had with a product or company. What feedback would you like to give the company, and to which functional area would you direct your feedback?

Students’ responses will vary depending on personal experiences and opinions.

(2) Have you already chosen the functional area where you want to work after graduation? If so, what led you to that choice?

Students’ responses will vary depending on personal experiences.

**LEARNING OBJECTIVE 5: Summarize seven of the most important business professions.**

**Critical thinking:**

(1) Why are communication skills essential in all seven of the functional areas discussed in this section?

Because all seven functional areas require communications with various stakeholders of businesses, including customer, employees, investors, suppliers, and the community in which businesses exist.

(2) Why would financial managers be in a good position to rise up the company ladder?

Because the work of the financial managers is generally kept in house. In addition, the work of a financial manager touches every part of the company.

**It’s your business:**

(1) Which of these seven general career areas appeals to you the most? Why?

Students’ responses will vary depending on personal opinions.

(2) What is your view of the sales profession? If it is not entirely positive, what would you do as a sales professional to change that public image?

Students’ responses will vary depending on personal opinions.

**LEARNING OBJECTIVE 6: Identify seven components of professionalism.**

**Critical thinking:**

(1) How much loyalty do employees owe to their employers? Explain your answer.

Students’ responses will vary depending on personal experiences and opinions but points to consider include the employers’ perspective; i.e. many employers consider their employees disposable and may lay them off when the companies experience a bad financial quarter.

(2) Would it be unethical to maintain a positive public persona if you have private doubts about the path your company is pursuing? Why or why not?

Students’ responses will vary depending on personal experiences and opinions.

**It’s your business:**

(1) In what ways do you exhibit professionalism as a student?

Students’ responses will vary depending on personal experiences and opinions.

(2) You can see plenty of examples of unprofessional business behavior in the news media and in your own consumer and employee experiences. Why should you bother being professional yourself?

Students’ responses will vary depending on personal experiences and opinions.