

MANAGING WITHIN THE dynamic business environment

Taking Risks and Making Profits



profile

Getting to Know

X Michele Hoskins

of Michele Foods

Not all businesspeople make the headlines. But their stories are interesting nonetheless. For example, Michele Hoskins says she comes from “a family of cooking women.” Her mother was a great cook who made sure that Hoskins learned everything about cooking. One of the recipes Hoskins’s mother taught her had been passed down from her great-great-grandmother, America Washington. Mrs. Washington, who was born a slave in the 1860s, served a family who did not like molasses on their pancakes. She developed a syrup for them made out of churned butter, cream, and honey. Today it is known as Honey Creme Syrup.

Hoskins’s parents told her, “Anything that the mind can conceive can be achieved.” When Hoskins was going through a divorce and was working at one part-time job after another, she read an article about women entrepreneurs and how they were succeeding. She decided then and there to become an entrepreneur herself because she wanted to be independent and to control her own destiny. So, she thought, why not form a company to sell her great-great-grandmother’s syrup? She began to visualize the bottles and all the stores that would be selling the syrup. She sold her home, her car, and her jewelry to

get the money she needed to start her business. Then she began making the syrup in her basement and taking it around to the local stores to sell. She would often go back and buy some herself to get the flow of sales going.

It took a lot of persistence for Hoskins to finally succeed. Eventually she got a \$3 million contract from Denny’s—after calling on the company *every week* for three years. So, how is she doing now? Honey Creme Syrup is being sold in 10,000 grocery stores, including Stop & Shop, Super Wal-Mart, and Albertson’s. Sales are over \$8 million. In addition to the syrup, Hoskins’s company also sells condiments; for example, it sells condiments for Church’s Chicken. Now Hoskins is so successful that she is eager to pass down her success to her own three children.

Hoskins has written a book about her experiences called *Sweet Expectations*. She writes about the obstacles she has faced, including a brain tumor that temporarily blinded her. Of course, she also writes about her many successes. For example, she was named the 2002 Entrepreneur of the Year by the Woman’s Foodservices Forum. She has been on many TV shows, including *Oprah*. She believes that anything can be

After you have read and studied this chapter, you should be able to

- 1 Describe the relationship of businesses' profit to risk assumption and discuss how businesses and nonprofit organizations add to the standard of living and quality of life for all.
- 2 Explain the importance of entrepreneurship to the wealth of an economy.
- 3 Examine how the economic environment and taxes affect businesses.
- 4 Illustrate how the technological environment has affected businesses.
- 5 Identify various ways in which businesses can meet and beat competition.
- 6 Demonstrate how the social environment has changed and tell what the reaction of the business community has been.
- 7 Analyze what businesses must do to meet the global challenge, which includes war and terrorism.
- 8 Review how trends from the past are being repeated in the present and what such trends will mean for tomorrow's college graduate.

www.michelefoods.com

achieved by "faith, hard work, and perseverance." Her enthusiasm makes her a great speaker. Because she believes in contributing to her community, Hoskins also mentors individuals who have an interest in the food business. (You can hear Hoskins tell the story of how and why she started her own business by visiting the company Web site at www.michelefoods.com and clicking on the video.)

The purpose of this text is to introduce you to the exciting and challenging world of business. Each chapter will begin with a story like this one. You will meet more successful entrepreneurs like Michele Hoskins who have started businesses of all kinds. You will also learn about people who work for others and have succeeded far beyond their original expectations. You will learn about all aspects of business: management, human resource management, marketing, accounting, finance, and more. You will also learn about businesses of all sizes, from hot-dog vendors in a local street market to huge global concerns like IBM. We begin by looking at some key terms and exploring the rapidly changing business environment so that you can start preparing to meet tomorrow's challenges today.

Sources: "Sweet Expectations: A Recipe for Success," *Black Enterprise*, December 2004, pp. 116-19, and www.michelefoods.com/, April 28, 2006.



business

Any activity that seeks to provide goods and services to others while operating at a profit.

profit

The amount of money a business earns above and beyond what it spends for salaries and other expenses.

entrepreneur

A person who risks time and money to start and manage a business.

revenue

The total amount of money a business takes in during a given period by selling goods and services.

loss

When a business's expenses are more than its revenues.

Hot dog vendors have expenses to pay, just like any other business. They have to subtract those expenses from revenues to determine what profit they make. What kind of expenses might street vendors avoid relative to those entrepreneurs who establish restaurants?

BUSINESS AND ENTREPRENEURSHIP: REVENUES, PROFITS, AND LOSSES

Michele Hoskins is just one of thousands of people who have learned that one of the best ways to become a success in the United States, or almost anywhere else in the world, is to start a business. A **business** is any activity that seeks to provide goods and services to others while operating at a profit. **Profit** is the amount of money a business earns above and beyond what it spends for salaries and other expenses. Since not all businesses make a profit, starting a business can be risky. An **entrepreneur** is a person who risks time and money to start and manage a business.

Businesses provide people with the opportunity to become wealthy. Sam Walton of Wal-Mart began by opening one store in Arkansas and, over time, became the richest person in America; his heirs now have many billions of dollars. Bill Gates started Microsoft and is now the richest person in the world. *Forbes* magazine reports that there are at least 793 billionaires in over 40 different countries.¹ Maybe you will be one of them someday if you start your own business.

Businesses don't just make money for entrepreneurs. Businesses provide all of us with necessities such as food, clothing, housing, medical care, and transportation, as well as other goods and services that make our lives easier and better.

Matching Risk with Profit

Profit, remember, is the amount of money a business earns *above and beyond* what it pays out for salaries and other expenses. For example, if you were to start a business selling hot dogs in the summer, you would have to pay for the cart rental, for the hot dogs and other materials, and for someone to run the cart while you were away. After you paid your employee and yourself, paid for the food and materials you used, paid the rent on the cart, and paid your taxes, any money left over would be profit. Keep in mind that profit is over and above the money you pay yourself in salary. You could use any profit you make to rent or buy a second cart and hire other employees. After a few summers, you might have a dozen carts employing dozens of workers.

Revenue is the total amount of money a business takes in during a given period by selling goods and services. A **loss** occurs when a business's expenses are more than its revenues. If a business loses money over time, it will likely have to close, putting its employees out of work. In fact, approximately 80,000 businesses in the United States close each year. Some owners close down one business to start another one or retire. Even though such closings are not failures, they are often reported as such in the statistics.

Starting a business involves risk. **Risk** is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable. Even among companies that do make a profit, not all make the same amount. Those companies that take the most risk may make the most profit. There is a lot of risk involved, for example, in making a new kind of automobile. Similarly, it may involve additional risk to open a business in



the inner city because insurance and land costs there are usually higher than in suburban areas, but the chance of making substantial profits in the inner city is also good because there's often less competition there than in other areas.²

Businesses Add to the Standard of Living and Quality of Life

Entrepreneurs such as Sam Walton (Wal-Mart) and Bill Gates (Microsoft) not only became wealthy themselves by starting successful businesses; they also provided employment for other people. Wal-Mart is currently the nation's largest private employer. Employees pay taxes that the federal government and local communities use to build hospitals, schools, playgrounds, and other facilities. Taxes are also used to help keep the environment clean and to support people in need. Businesses pay taxes to the federal government and local communities. That money can be used for schools, libraries, hospitals, and other such facilities. Thus, the wealth businesses generate and the taxes they pay may help everyone in their communities. A nation's businesses are part of an economic system that contributes to the standard of living and quality of life for everyone in the country.

The term **standard of living** refers to the amount of goods and services people can buy with the money they have. For example, the United States has one of the highest standards of living in the world, even though a few workers in some other countries, such as Germany and Japan, may make more money per hour. How can that be? Prices for goods and services in Germany and Japan are higher than in the United States, so what a person can buy in those countries is less than what a person in the United States can buy with the same amount of money. For example, a bottle of beer that in Japan may cost \$7 may in the United States cost less than \$1. A pound of rice may be five times more expensive in Japan than in the United States. Often, the reasons goods cost more in one country versus another include higher taxes and stricter government regulations. Finding the right level of taxes and regulation is an important step toward making a country (or a city) prosperous. We'll explore that issue more deeply in Chapter 2. At this point, it is enough to understand that the United States has such a high standard of living largely because of the wealth created by its businesses.

The term **quality of life** refers to the general well-being of a society in terms of political freedom, a clean natural environment, education, health care, safety, free time, and everything else that leads to satisfaction and joy. It is the joy life brings beyond the possession of goods. Maintaining a high quality of life requires the combined efforts of businesses, nonprofit organizations, and government agencies. The more money businesses create, the more is potentially available to improve the quality of life for everyone.

Responding to the Various Business Stakeholders

Stakeholders are all the people who stand to gain or lose by the policies and activities of a business. Stakeholders include customers, employees, stockholders, suppliers, dealers, bankers, people in the surrounding community (e.g., community interest groups), environmentalists, and elected government leaders (see Figure 1.1 on page 6). All of these groups are

risk

The chance an entrepreneur takes of losing time and money on a business that may not prove profitable.

standard of living

The amount of goods and services people can buy with the money they have.

quality of life

The general well-being of a society in terms of political freedom, a clean natural environment, education, health care, safety, free time, and everything else that leads to satisfaction and joy.

stakeholders

All the people who stand to gain or lose by the policies and activities of a business.

You know that people have a high standard of living in areas where you see stores selling expensive merchandise. That includes major cities in relatively poor countries. A high standard of living doesn't necessarily translate into a high quality of life. Is it more important to have what you want or to want what you have?



figure I.1

A BUSINESS AND ITS STAKEHOLDERS

Often the needs of a firm's various stakeholders will conflict. For example, paying employees more may cut into stockholders' profits. Balancing such demands is a major role of business managers.



affected by the products, policies, and practices of businesses, and their concerns need to be addressed.

The challenge of the 21st century will be for organizations to balance, as much as possible, the needs of all stakeholders.³ For example, the need for the business to make profits may be balanced against the needs of employees for sufficient income. The need to stay competitive may call for outsourcing jobs to other countries, but that might do great harm to the community because many jobs would be lost.⁴ **Outsourcing** means contracting with other companies (often in other countries) to do some or all of the functions of a firm (e.g., production or accounting).⁵ Outsourcing has had serious consequences in states where many jobs have been lost to overseas competitors. Companies have gone from outsourcing production jobs to outsourcing research and development and design functions. Such outsourcing may prove disastrous to those firms, in that overseas companies may use the information to produce their own, competitive products.⁶

The other side of the coin is *insourcing*. Many companies are setting up design and production facilities here in the United States.⁷ For example, Hyundai is doing design and engineering work in Detroit and producing cars in Montgomery, Alabama. Honda and Toyota have been producing cars in the United States for years. Such insourcing creates many new jobs, and helps offset the number of jobs being outsourced.⁸ It may be legal to outsource, but is that best for all the stakeholders, including workers? Business leaders must make a decision based on all factors, including the need to make a profit. As you can see, pleasing all stakeholders is not easy and calls for trade-offs that are not always pleasing to one or another stakeholder.

outsourcing

Assigning various functions, such as accounting, production, security, maintenance, and legal work, to outside organizations.

Social Entrepreneurship

Bill Drayton has the kind of credentials that would make any businessperson proud. He was graduated from Harvard and went on to study at Oxford and Yale Law. He then worked for McKinsey, a consulting firm, and the Environmental Protection Agency. He is now the founder and chief executive of a group called Ashoka (it was named for a peace-minded, third-century-BC Indian emperor). Ashoka seeks out social entrepreneurs (it now supports some 1,500) and creates a network among them so that they can learn from one another.

For example, poor farmers in Bolivia were using the sharp edges of cans to shear alpaca. An entrepreneur created incentives for farmers to use shears instead of the cans, and to wash the fiber. He also came up with a simple but efficient distribution system that includes grading the wool. This results in more income for the farmers. Ashoka linked this entrepreneur with others around the world so they could learn from one another. In this case, a social en-



trepreneur in Nepal's Tibetan plateau learned about the new methods in Bolivia and was able to implement them quickly.

As Ashoka raises more money, it will be able to support projects such as this throughout the world. However, it needs more people who have creative ideas that they can apply to social problems, such as the need for clean water.

The ideas have to be general enough to be used in multiple countries or areas, and the social entrepreneurs must have the highest ethical values so that they can become trusted change agents in the areas they serve. Can you see yourself as such a person? You could become a small-business owner in the United States, but you could also use the business skills you learn in this course to be a social entrepreneur in other countries. Can you see the possibilities?

Sources: Keith H. Hammonds, "A Lever Long Enough to Move the World," *Fast Company*, January 2005, pp. 61–63; www.ashoka.org, 2006; and Cheryl Dahle, "Next: A Nonprofit IPO?," *Fast Company*, April 2006, p. 36.

Using Business Principles in Nonprofit Organizations

Despite their efforts to satisfy all their stakeholders, businesses cannot do everything that is needed to make a community all it can be. Nonprofit organizations—such as public schools, civic associations, charities, and groups devoted to social causes—also make major contributions to the welfare of society. A **nonprofit organization** is an organization whose goals do not include making a personal profit for its owners or organizers.⁹ Nonprofit organizations often do strive for financial gains, but such gains are used to meet the stated social or educational goals of the organization rather than personal profit.¹⁰ *Social entrepreneurs* are people who use business principles to start and manage organizations that are not for profit and help countries with their social issues.¹¹ One such entrepreneur is featured in the Spotlight on Small Business box.

Your interests may lead you to work for a nonprofit organization. That doesn't mean, however, that you shouldn't study business. If you want to start or work in a nonprofit organization, you'll need to learn business skills such as information management, leadership, marketing, and financial management. Therefore, the knowledge and skills you acquire in this and other business courses will be useful for careers in any organization, including nonprofits.

Businesses, nonprofit organizations, and volunteer groups often strive to accomplish the same objectives.¹² All such groups can help feed people, provide them with clothing and housing, clean up the environment and keep it clean, and improve the standard of living and quality of life for all.

Starting any business, profit or nonprofit, can be risky. Once an entrepreneur has started a business, there is usually a need for good managers and other workers to keep the business going. Not all entrepreneurs are skilled at being managers. We shall explore entrepreneurship in more detail right after the Progress Assessment.

nonprofit organization
An organization whose goals do not include making a personal profit for its owners or organizers.

Entrepreneurship is available to everyone in the United States. Statistics show that the number of new ventures being started by Hispanic entrepreneurs is many times greater than the average. But other ethnic groups are also eager to start their own businesses and improve the standard of living and quality of life for them and the people they hire. Who are the new entrepreneurs in your town?

progress assessment

- What is the difference between *revenue* and *profit*?
- What is the difference between *standard of living* and *quality of life*?
- What is risk, and how is it related to profit?
- What do the terms *stakeholders* and *outsourcing* mean?

ENTREPRENEURSHIP VERSUS WORKING FOR OTHERS

There are two ways to succeed in business. One way is to rise up through the ranks of large companies like IBM or General Electric. The advantage of working for others is that somebody else assumes the entrepreneurial risk and provides you with benefits such as paid vacation time and health insurance. Most people choose that option. It is a very good option and can lead to a happy and prosperous life.

The other, riskier path is to start your own business (become an entrepreneur). The national anthem, “The Star Spangled Banner,” says that the United States is the “land of the free and the home of the brave.” Part of being free is being able to own your own business and to reap the profits from that business. But freedom to succeed also means freedom to fail, and many small businesses fail each year. Thus, it takes a brave person, like Michele Hoskins (see this chapter’s Opening Profile), to start a small business. Furthermore, as an entrepreneur you don’t receive any benefits such as paid vacation time, day care, a company car, or health insurance. You have to provide them for yourself! Before you take on the challenge of entrepreneurship, you should study those who have succeeded to learn the process. You can do that by talking to them personally or by reading about them in Chapter 6 of this text and in other books and magazines.



Opportunities for Entrepreneurs

The United States provides opportunities for all. Often the most attractive opportunity is that of owning and managing your own business. Millions of people from all over the world have taken the entrepreneurial challenge and succeeded. For example, the number of Hispanic-owned businesses in the United States is growing three times the national average.¹³ There is also rapid growth in businesses owned by Asians, Pacific Islanders, Native Americans, and Alaskan Natives. Some 30 percent of Koreans who immigrated to the United States now own their own businesses.

Top African American business leaders include Kase Lawal of CAMAC International, Gregory Jackson of Prestige Automotive, Bill Easter III of Duke Energy, Ann M. Fudge of Young & Rubicam Brands, and John W. Thompson of Symantec.¹⁴ Tremendous opportunities exist for all men and women willing to take the risk of starting a business. Notice that we said *men and women*. The number of women business owners has dramatically increased in the last 20 years. In 1980, there were about 3 million women business owners; by 2005,

there were over 10.6 million firms that were 50 percent or more women-owned. Women now own over a third of all businesses. Names you may be familiar with include Oprah Winfrey, Donna Karan, and Lillian Vernon.¹⁵

The Importance of Entrepreneurs to the Creation of Wealth

Have you ever wondered why some countries are relatively wealthy and others poor? Economists have been studying the issue of wealth creation for many years. They began the process by studying potential sources of wealth to determine which are the most important. Over time, they came up with five factors that seemed to contribute to wealth. They called them **factors of production**. Figure 1.2 shows those five factors. They are:

1. Land (or natural resources).
2. Labor (workers).
3. Capital. (This includes machines, tools, buildings, or whatever else is used in the production of goods. It does *not* include money; money is used to buy factors of production—it is not a factor itself.)
4. Entrepreneurship.
5. Knowledge.

Traditionally, business and economics textbooks emphasized only four factors of production: land, labor, capital, and entrepreneurship. But the late management expert and business consultant Peter Drucker said that the most important factor of production in our economy is and always will be knowledge. Workers in the high-tech industries in the Silicon Valley area of California are sometimes called *knowledge workers*. Many have become millionaires while still in their 20s.

If you were to analyze rich countries versus poor countries to see what causes the differences in the levels of wealth, you'd have to look at the factors of production in each country. Such analyses have revealed that some relatively poor countries often have plenty of land and natural resources. Russia and China, for example, both have vast areas of land with many resources, but they are not rich countries (yet). In contrast, Japan and Hong Kong are relatively rich countries but are poor in land and other natural resources. Therefore, land isn't the critical element for wealth creation.

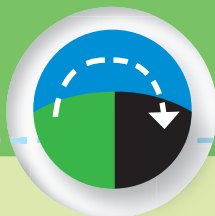
factors of production

The resources used to create wealth: land, labor, capital, entrepreneurship, and knowledge.

- Land: Land and other natural resources are used to make homes, cars, and other products.
- Labor: People have always been an important resource in producing goods and services, but many people are now being replaced by technology.
- Capital: Capital includes machines, tools, buildings, and other means of manufacturing.
- Entrepreneurship: All the resources in the world have little value unless entrepreneurs are willing to take the risk of starting businesses to use those resources.
- Knowledge: Information technology has revolutionized business, making it possible to quickly determine wants and needs and to respond with desired goods and services.

figure 1.2

THE FIVE FACTORS OF PRODUCTION



our borders

Recent studies have found that the freer a country is, the wealthier its citizens are. Freedom includes freedom from excess taxation, government regulations, and restrictions on trade. The average per capita gross domestic product (GDP)—the total value of all final goods and services produced in a country divided by the number of people in the country—for the freest countries greatly exceeds that in less-free countries. For example, Hong Kong is considered one of the freest economies in the world and has a per capita GDP of \$25,576. The same is true of Singapore, with a per capita GDP of \$27,321. At the other end of the scale, you will find Libya, with a per capita GDP of \$4,579. Some countries make even less per capita: Haiti, for example, has a GDP of \$338, and Burundi's is just \$143.

For the United States, there is good news and bad news in these figures. The bad news is that the United States has

slipped from number 4 on the list of most-free countries to 12th—tied with Switzerland. The good news is the reason the United States has fallen is that other countries—such as Luxembourg, Ireland, Estonia, the United Kingdom, and Denmark—have become more free. That is good news because freedom means freedom of trade as well as other freedoms, such as lower taxes and fewer regulations. Nonetheless, the United States is a relatively free country and its per capita GDP is a high \$32,517. As more countries become free, the standard of living around the world increases. And that is a good thing.

Sources: Donald Lambro, "Economic Freedom Slippage," *Washington Times*, January 13, 2005, p. A17; William Peterson, "Global Competition," *Washington Times*, February 15, 2005, p. A19; and Mary Anastasia O'Grady, "Wish They All Could Be Like Estonia," *The Wall Street Journal*, January 4, 2006, p. A10.

Most poor countries have many laborers, so it's not labor that's the primary source of wealth today. Laborers need to find work to make a contribution; that is, they need entrepreneurs to provide jobs for them. Furthermore, capital—machinery and tools—is now becoming available in world markets, so capital isn't the missing ingredient. Capital is not productive without entrepreneurs to put it to use.

What makes rich countries rich today is a combination of entrepreneurship and the effective use of knowledge. Together, lack of entrepreneurship and the absence of knowledge among workers, along with the lack of freedom, contribute to keeping poor countries poor. The box called Reaching Beyond Our Borders discusses the importance of freedom to economic development.

Entrepreneurship also makes some states and cities in the United States rich while others remain relatively poor. The business environment either encourages or discourages entrepreneurship. In the following section, we'll explore what makes up the business environment and how to build an environment that encourages growth and job creation.

progress assessment

- What are some of the advantages of working for others?
- What benefits do you lose by being an entrepreneur and what do you gain?
- What are the five factors of production? Which factors are the key to wealth?

business environment

The surrounding factors that either help or hinder the development of businesses.

THE BUSINESS ENVIRONMENT

The **business environment** consists of the surrounding factors that either help or hinder the development of businesses. Figure 1.3 shows the five elements in the business environment:



figure I.3

TODAY'S DYNAMIC BUSINESS ENVIRONMENT

1. The economic and legal environment.
2. The technological environment.
3. The competitive environment.
4. The social environment.
5. The global business environment.

Businesses grow and prosper in a healthy environment. The results are job growth and the wealth that makes it possible to have both a high standard of living and a high quality of life. The wrong environmental conditions, in contrast, lead to business failure, loss of jobs, and a low standard of living and quality of life. In short, creating the right business environment is the foundation for social progress of all kinds, including good schools, clean air and water, good health care, and low rates of crime.

The Economic and Legal Environment

People are willing to start new businesses if they believe that the risk of losing their money isn't too great. Part of that risk involves the economic system and how government works with or against businesses. Government can do a lot to lessen the risk of starting businesses and thus increase entrepreneurship and wealth. For example, a government can *keep taxes and regulations to a minimum*.



Starting a business in some countries is much harder than in others. In India, for example, a person has to go through an extraordinary and time-consuming bureaucratic process to get permission to start a business—and with no certainty of success. Nonetheless, those businesses that do get started can become a major source of wealth and employment. This jewelry business is one small example. Can you imagine the opportunities and wealth that might be created with just a little more freedom in this country of over a billion people?

Another way for government to actively promote entrepreneurship is to *allow private ownership of businesses*. In some countries, the government owns most businesses, and there's little incentive for people to work hard or create profit. All around the world today, however, governments are selling those businesses to private individuals to create more wealth. One of the best things the governments of developing countries can do is to *minimize interference with the free exchange of goods and services*. We shall discuss that issue in more depth in Chapter 2.

The government can lessen the risks of entrepreneurship by *passing laws that enable businesspeople to write contracts that are enforceable in court*. The Universal Commercial Code, for example, covers things like contracts and warranties. In countries that don't yet have such laws, the risks of starting a business are that much greater. You can read more about such laws in Bonus Chapter A at the end of this text.

The government can also *establish a currency that's tradable in world markets*. That is, you can buy and sell goods and services anywhere in the world using that currency.

Finally, the government can help *minimize corruption* in business and in its own ranks. It's hard to do business in many poor countries because the governments are so corrupt. It's very difficult in such countries to get permission to build a factory or open a store without a government permit, which is obtained largely through bribery of public officials. Among businesses themselves, leaders can threaten competitors and minimize competition.

There are many laws in the United States to minimize corruption, and businesses can flourish as a result. Nonetheless, corrupt and illegal activities at some companies do negatively affect the business community and the economy as a whole.¹⁶ The news media widely report scandals involving people like Martha Stewart and companies such as Enron. You also hear about sports scandals (e.g., the taking of performance enhancers), church scandals, and government scandals. Such scandals go across borders and across organizations. Ethics is so important to the success of businesses and the economy as a whole that we feature ethics boxes in each chapter and devote Chapter 4 to the subject.

The capitalist system relies heavily on honesty, integrity, and high ethical standards. Failure of those fundamentals can weaken the whole system; the faltering economy of the early 2000s was due in part to such failure. It is easy to see the damage caused by the poor moral and ethical behavior of some businesspeople. What is not so obvious is the damage caused by the moral and ethical lapses of the everyday consumer—that is, you and me. The Making Ethical Decisions box on page 13 discusses that issue in more depth.

The Technological Environment

Since prehistoric times, humans have felt the need to create tools that make their jobs easier. Various tools and machines developed throughout history have changed the business environment tremendously, but few technological changes have had a more comprehensive and lasting impact on businesses than the emergence of information technology (IT): computers, modems, cellular phones, and so on. Chief among these developments is the Internet. Although many Internet firms have failed in recent years, the Internet is a major force in business

ethical decisions

Despite the fact that the vast majority of businesspeople are ethical, television, movies, and the print media all paint a dismal picture of ethics among businesspeople, government officials, students, and citizens in general. It is easy to criticize the ethics of people whose names appear in the headlines. It is more difficult to see the moral and ethical misbehavior of your own social group. Do you find some of the behaviors of your friends morally or ethically questionable? A recent study found that 26 percent of business majors admitted to cheating.



Ethics Begins with You

A recent survey found that among the number of employees calling in sick, which has reached a five-year high, three-fifths were not sick at all. Other employees have been caught doing personal business at work, such as doing their taxes. And others play video games on their work computers. We're sure you can add many more examples of employees choosing to do unethical things at work. One of the major trends in business today is that many companies are creating ethics codes to guide their employees' behavior. We believe that this trend toward improving ethical behavior is so important that we've made it a major theme of this book. Throughout the text you'll see boxes, like this one, called Making Ethical Decisions. The boxes contain short descriptions of situations that pose ethical dilemmas and ask what you would do to resolve them. The idea is for you to think about the moral and ethical dimensions of every decision you make.

Here is your first ethical dilemma: You are doing a project outside of your work. The project will need paper, pens, and other materials available at work. You have noticed other employees taking home such materials. You are thinking about doing the same. What is the problem in this situation? What are your alternatives? What are the consequences of each alternative? Which alternative will you choose? Is your choice ethical?

Source: Sue Shellenbarger, "How and Why We Lie at the Office: From Pilfered Pens to Padded Accounts," *The Wall Street Journal*, March 24, 2005, p. D1, and Helena Oh, "Biz Majors Get an F for Honesty," *BusinessWeek*, February 6, 2006, p. 14.

today.¹⁷ We discuss the Internet's impact on businesses throughout the text. In addition, we provide Internet exercises at the end of each chapter to give you some hands-on experience with various Internet uses.

How Technology Benefits Workers and You One of the advantages of working for others is that the company often provides the tools and technology to make your job more productive. **Technology** means everything from phones and copiers to computers, medical imaging devices, personal digital assistants, and the various software programs that make business processes more effective, efficient, and productive. *Effectiveness* means producing the desired result. *Efficiency* means producing goods and services using the least amount of resources. **Productivity** is the amount of output you generate given the amount of input (e.g., hours worked). The more you can produce in any given period of time, the more money you are worth to companies.

Technology affects people in all industries. For example, Don Glenn, a farmer in Decatur, Alabama, uses his personal computer to compare data from last year's harvest with infrared satellite photos of his farm that show which crops are flourishing. He has a desktop terminal called a DTN that allows him to check the latest grain prices, and he uses AgTalk, a Web-based bulletin board, to converse with other farmers from all over the world. He also bids for

technology

Everything from phones and copiers to computers, medical imaging devices, personal digital assistants, and the various software programs that make business processes more efficient and productive.

productivity

The amount of output you generate given the amount of input.



DEALING WITH change

* * *

Amazon.com Must Change with the Times

Jeff Bezos started Amazon.com back in 1995. His first task was to raise a million dollars through private financing. Eventually, 22 different investors put up the money, but the venture was considered very risky. By the year 2000, people were predicting that the company would be unable to service its debt and would soon go bankrupt. Bezos had to dodge and weave to keep the company going and to assure investors that it was viable. As companies like Amazon.com grew more successful, traditional retailers started their own online services to compete. Bezos had to counter these new competitors by expanding the company's offerings. For example, he began to offer free shipping for orders of \$99 or more. Then he made it \$49 or more. Eventually, he ended up with free shipping for orders over \$25.

Constant adjustments to the market have made Amazon.com one of the fastest-growing companies in the

United States. Over time, the company added new products to its offerings. Now it sells everything from automobiles and baby items to video games and watches.

Dealing with change is such an important subject in businesses today that we will have boxes like this in almost every chapter. The idea is to keep you informed of the changes that are occurring and the ways that companies are adapting. You have seen, for example, how automobile companies are trying to adapt to higher gas prices. Some are producing hybrid vehicles and diesel cars that use less gas. Small companies are learning to compete with larger companies by going on the Internet.

Sources: Bob Walker, "Because Optimism Is Essential," *Inc.*, April 2004, pp. 149-50; Robert Buderl, "E-Commerce Gets Smarter," *Technology Review*, April 2005, pp. 54-59, and www.amazon.com, 2006.

www.amazon.com



bulk fertilizer on XSAg.com, an online agricultural exchange. High-tech equipment tells Glenn how and where to spread fertilizer and seed, tracks yields yard by yard, and allows him to maintain high profit margins.

EBay is one of the big winners in the fight for Internet attention. What Internet sites are your favorites? Do you think that buying items over the Internet is going to greatly affect the shopping malls in your area?

The Growth of E-Commerce One of the major themes of this text is managing change. There are special boxes called Dealing with Change throughout the text that discuss the rapidly changing business environment and the need to adjust to these changes. One of the more important changes of recent years is the growth of **e-commerce**, the buying and selling of goods over the Internet.¹⁸ There are two major types of e-commerce transactions: business-to-consumer (B2C) and

business-to-business (B2B). As important as the Internet has been in the consumer market, it has become even more important in the B2B market, which consists of selling goods and services from one business to another, such as IBM selling consulting services to a local bank.¹⁹

The rise of Internet marketing came so fast and furious that it drew hundreds of competitors into the fray. Many of the new Internet companies failed. Companies such as Pets.com, CDnow, Internet Capital Group, Peapod, eToys, and Drkoop.com have failed entirely or seen their stock prices drop dramatically. Many B2B stocks experienced similar failures. There is no question that some Internet businesses will grow and prosper, but along the way there will continue to be lots of failures, just as there have been



in traditional businesses. Traditional businesses will have to learn how to deal with the new competition from B2B and B2C firms, and vice versa. The Dealing with Change box discusses how Amazon.com is adapting to rapid change.

Using Technology to Be Responsive to Customers Another of the major themes of this text is that businesses succeed or fail largely because of how they treat their customers.²⁰ The businesses that are most responsive to customer wants and needs will succeed, and those that do not respond to customers will not be as successful.²¹ One way traditional retailers can respond to the Internet revolution is to use technology to become much more responsive to customers. For example, businesses mark goods with Universal Product Codes (bar codes)—those series of lines and numbers that you see on most consumer packaged goods. Bar codes can be used to tell retailers what product you bought, in what size and color, and at what price. A scanner at the checkout counter can read that information and put it into a database.

A **database** is an electronic storage file where information is kept. One use of databases is to store vast amounts of information about consumers. For example, a retailer may ask for your name, address, and telephone number so that it can put you on its mailing list. The information you give the retailer is added to the database. Because companies routinely trade database information, many retailers know what you buy and from whom you buy it. Using that information, companies can send you catalogs and other direct mail advertising that offers the kind of products you might want, as indicated by your past purchases. The use of databases enables stores to carry only the merchandise that the local population wants.

Unfortunately, the gathering of personal information about people has also led to identity theft. **Identity theft** is the obtaining of private information about a person, such as Social Security number and/or credit card number, and using that information for illegal purposes, such as buying things with it. ChoicePoint, the leading provider of identification and verification services for businesses, for example, sold private data on 145,000 people to criminals. Some 180,000 people who used MasterCard credit cards at Polo Ralph Lauren may have had their private information stolen.²² The Federal Trade Commission estimates that about 10 million Americans are victims of identity theft each year. What you should learn from these examples is to be very careful to limit those to whom you give your private information such as credit card numbers and Social Security number.²³

The Competitive Environment

Competition among businesses has never been greater than it is today. Some companies have found a competitive edge by focusing on quality. The goal for many companies is zero defects—no mistakes in making products.²⁴ However, simply making a high-quality product isn't enough to allow a company to stay competitive in world markets. Companies now have to offer both high-quality products and outstanding service at competitive prices (value). Figure 1.4 on page 16 shows how competition has changed businesses from the traditional model to a new, world-class model.

e-commerce

The buying and selling of goods and services over the Internet.

database

An electronic storage file where information is kept; one use of databases is to store vast amounts of information about consumers.

identity theft

The obtaining of private information about a person, such as Social Security number and/or credit card number, and using that information for illegal purposes, such as buying things with it.

Once an identity thief has obtained your social security number, credit card number, address, and such he or she can charge goods and services to your account. Do you know the limit you are liable for?

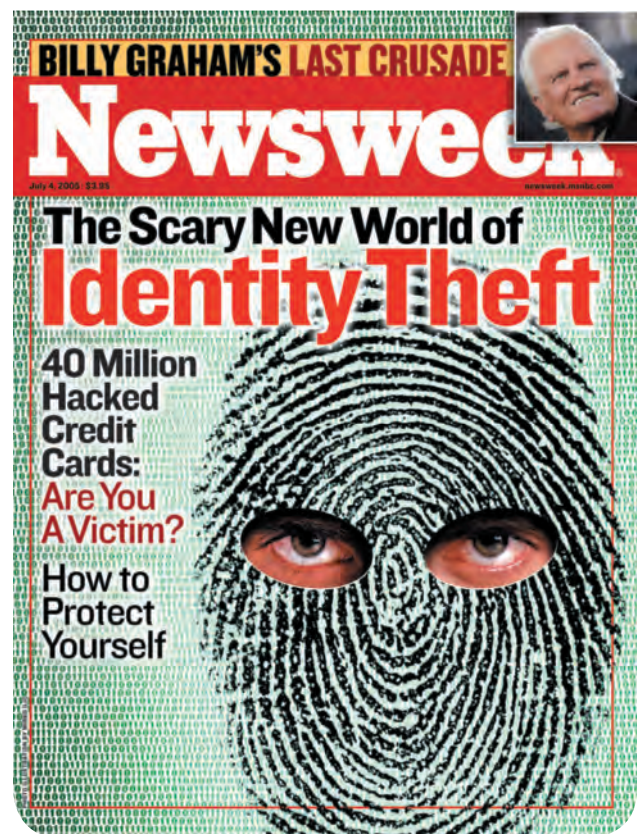


figure I.4

HOW COMPETITION HAS CHANGED BUSINESS

TRADITIONAL BUSINESSES	WORLD-CLASS BUSINESSES
Customer satisfaction	Delighting the customer ¹
Customer orientation	Customer and stakeholder orientation ²
Profit orientation	Profit and social orientation ³
Reactive ethics	Proactive ethics ⁴
Product orientation	Quality and service orientation
Managerial focus	Customer focus

¹ *Delight* is a term from total quality management. *Bewitch* and *fascinate* are alternative terms.

² Stakeholders include employees, stockholders, suppliers, dealers (retailers), and the community; the goal is to please *all* stakeholders.

³ A social orientation goes beyond profit to do what is right and good for others.

⁴ *Proactive* means doing the right thing before anyone tells you to do it. *Reactive* means responding to criticism after it happens.

Competing by Exceeding Customer Expectations Manufacturers and service organizations throughout the world have learned that today's customers are very demanding. Not only do they want good quality at low prices, but they want great service as well. Every manufacturing and service organization in the world should have a sign over its door telling its workers that the customer is king. Business is becoming customer-driven, not management-driven as in the past. This means that customers' wants and needs must come first.²⁵

Customer-driven organizations include Nordstrom department stores (which have a very generous return policy) and Disney amusement parks (which are kept clean and appeal to all ages). Successful organizations must now listen more closely to customers to determine their wants and needs, then adjust the firm's products, policies, and practices to meet those demands. We will explore these concepts in more depth in Chapter 13.

Competing by Restructuring and Empowerment To meet the needs of customers, firms must give their frontline workers (office clerks, front-desk people at hotels, salespeople, etc.) the responsibility, authority, freedom, training, and equipment they need to respond quickly to customer requests and to make other decisions essential to producing quality goods and providing good service. This is called **empowerment**, and we'll be talking about that process throughout this book. To implement a policy of empowerment, managers must train frontline people to make decisions without the need to consult managers.

Empowering employees leads to developing entirely new organization structures to meet the changing needs of customers and employees. As many companies have discovered, it sometimes takes years to restructure an organization so that managers are willing to give up some of their authority and employees are willing to assume more responsibility. We'll discuss such organizational changes and models in Chapter 8.

empowerment

Giving frontline workers the responsibility, authority, and freedom to respond quickly to customer requests.

demography

The statistical study of the human population with regard to its size, density, and other characteristics such as age, race, gender, and income.

The Social Environment

Demography is the statistical study of the human population with regard to its size, density, and other characteristics such as age, race, gender, and income. In this book, we're particularly interested in the demographic trends that most affect businesses and career choices. The U.S. population is going through major changes that are dramatically affecting how people live, where they live, what they buy, and how they spend their time. Furthermore, tremendous

population shifts are leading to new opportunities for some firms and to declining opportunities for others.

Managing Diversity Diversity has come to mean much more than recruiting and keeping minorities and women. Many more groups are now included in diversity efforts. For example, the list of 26 diversity groups identified by Federated Department Stores includes seniors, the disabled, homosexuals, atheists, extroverts, introverts, married people, singles, and the devout.

Companies have responded to a diverse customer base by hiring a more diverse workforce to serve them. AT&T, for example, is one of the largest data communications companies in the world. The company's workforce is 51 percent female and 34 percent people of color; people of color also represent 26 percent of SBC's management team. More than 75 percent of Fortune 1,000 companies have some sort of diversity initiative. Some, like Kodak, have a chief diversity officer (CDO) in the executive suite. In short, companies are taking diversity management seriously.²⁶

The number of legal and illegal immigrants has had a dramatic effect on many cities. The schools and hospitals have been especially affected. Governments are adapting to the inflows by changing signs, brochures, and forms to other languages. They are also changing voting ballots and making every effort possible to adapt. Is your city one of those that has experienced such changes? What are some of the impacts you've noticed?

The Increase in the Number of Older Americans People ages 45 to 54 are currently the richest group in U.S. society. They spend more than others on everything except health care and thus represent a lucrative market for restaurants, transportation, entertainment, education, and so on. By 2010 the number of citizens over 60 will be about 56 million, and by 2020 they will be more than 23 percent of the population. What do such demographics mean for you and for businesses in the future? Think of the products and services the middle-aged and elderly will need—travel, medicine, nursing homes, assisted-living facilities, adult day care, home health care, recreation, and the like—and you'll see opportunities for successful businesses of the 21st century. Businesses that cater to older consumers will have the opportunity for exceptional growth in the near future. For example, there are lots of computer games for young people, but senior citizens may enjoy playing games and doing other things on the computer as well. The market is huge.

On the other hand, retired people will be draining the economy of wealth. The Social Security issue has become one of the major issues today. The pay-as-you-go system (this means that today's workers pay for today's retirees) worked just fine in 1940, when 42 workers supported each retiree. But by 1960 there were only five workers per retiree, and today that number is barely three and dropping.²⁷ When the baby-boom generation (those people born between 1946 and 1964) retires, it will be closer to two.

Here is the situation: Since 1985, Social Security tax revenues have exceeded benefit payments. But the government has been spending that money



Many large companies are emphasizing their diversity initiatives. Diversity means more than ethnicity or race. It makes sense for companies to search for a diverse workforce because the customer base is likely to be just as diverse and often needs special attention. Do you see lots of diversity among college students? What are the benefits and drawbacks?

instead of leaving it in a Social Security account. In 2018, less money will be coming into Social Security than will be going out.²⁸ The government will have to do something to make up for the shortfall. There are several options, none of them particularly good for you: raise taxes, cut Social Security benefits (e.g., raise the retirement age), reduce spending elsewhere (e.g., cut social programs), or borrow on the world market.²⁹

In short, paying Social Security to senior citizens in the future will draw huge amounts of money from the economy.³⁰ That is why there is so much discussion about what to do with Social Security in the media today. One option involves setting up personal savings accounts to allow young people to invest part of their Social Security money.³¹ This is just one of many options available to the government today. You may want to research other options that are being discussed. After all, your welfare at retirement age depends on the decisions made now.

Two-Income Families Several factors have led to a dramatic growth in two-income families in the United States. The high costs of housing and of maintaining a comfortable lifestyle, the high level of taxes, and the cultural emphasis on “having it all” have made it difficult if not impossible for many households to live on just one income. Furthermore, many women today simply want a career outside the home.

One result of this trend is a host of programs that companies have implemented in response to the demands of busy two-income families. IBM and Procter & Gamble, for example, each offer employees pregnancy benefits, parental leave, flexible work schedules, and elder care programs. Some companies offer referral services that provide counseling to parents in search of child care or elder care. Such trends are creating many new opportunities for graduates in human resource management.

Workplace changes due to the rise of two-income families create many job opportunities in day care, counseling, and other related fields. You’ll learn more about what’s happening in human resource management in Chapter 11.

Single Parents The rapid growth of single-parent households has had a major effect on businesses as well. It is a tremendous task to work full-time and raise a family. Welfare rules force single parents to work after a certain period. Single parents have encouraged businesses to implement programs such as family leave (where workers can take time off to attend to a sick child) and flextime (where workers can come in or leave at selected times). Again, you will be able to read about such programs in more detail in Chapter 11.

The Global Environment

The global environment of business is so important that we show it as surrounding all other environmental influences (see again Figure 1.3). Two important environmental changes in recent years have been the growth of international competition and the increase of free trade among nations. Two things that have led to more trade are the improvements in transportation and communication. These changes include more efficient distribution systems (we’ll talk about these in Chapter 15) and communication advances such as the Internet. World trade (sometimes called globalization) has greatly improved living standards around the world. For example, the number of East Asian people living on less than a dollar a day has declined from 56 percent to less than 16 percent.³² China and India have become major U.S. competitors. Lenovo, a Chinese firm, recently bought IBM’s PC unit.³³ Shop at Wal-Mart or most other American retail stores and you can’t help but be impressed by the



The agreement between Lenovo and IBM is just one of many that you can expect now that the world has become so interdependent. Companies from the United States are building many of their products overseas, but many foreign companies, such as auto firms, are building their products in the United States. Do you see the globalization of companies as basically a good thing or not?

number of “Made in China” stickers you see. Call for computer help and you are as likely to be talking with someone in India as someone in the United States.

World trade has its benefits and costs. You’ll read much more about the importance of global business in Chapter 3 and in the Reaching Beyond Our Borders boxes throughout the text.

War and Terrorism The war in Iraq that began in 2003 has drawn billions of dollars from the American economy. Some companies, including those that make bullets and tanks and uniforms, have benefited greatly. Most companies, however, have lost workers to the armed forces and have grown more slowly as money has been diverted to the war effort. The threat of other wars makes it necessary to spend even more money on the military. Such expenditures are a major focus of the government and are subject to much debate.

The threat of terrorism also adds greatly to organizational costs, including the cost of security personnel, security equipment, and insurance (firms are finding it difficult to get insurance against terrorist attacks). Airlines, for example, have had to install stronger cockpit doors, buy more security equipment, and hire new security personnel. The U.S. government has also experienced huge cost increases because of domestic security issues.

There seems to be a movement toward democracy in many parts of the world, and that could mean greater prosperity and peace.³⁴ Businesspeople, like all citizens, benefit from a peaceful and prosperous world. One way to lessen tensions around the world is to foster global economic growth using both profit-making organizations and nonprofit organizations, as discussed earlier.

How Global Changes Affect You As businesses expand to serve global markets, new jobs will be created in both manufacturing and service industries. U.S. exports are expected to continue to increase under new trade agreements

that will lead to expansion of the job market both in the United States and globally. Global trade also means global competition. The students who will prosper are those who are prepared for the markets of tomorrow. That means that you must prepare yourself now to compete in a rapidly changing worldwide environment. Rapid changes create a need for continuous learning. In other words, be prepared to continue your education throughout your career. Colleges will offer updated courses in computer technology, telecommunications, language skills, and other subjects you'll need to stay competitive. Students have every reason to be optimistic about job opportunities in the future if they prepare themselves well.

progress assessment

- What are four ways the government can foster entrepreneurship?
- What's the definition of productivity?
- What is *empowerment*?
- What are some of the major issues having to do with Social Security today?

goods

Tangible products such as computers, food, clothing, cars, and appliances.

Agriculture is one of the largest and most important industries in the United States. Use of technology has led to increased productivity and made farmers more efficient, resulting in larger farms. This trend has meant less expensive food for us, but a continual reduction in the number of small, family-run farms. Does the new technology also help smaller farms compete?

THE EVOLUTION OF AMERICAN BUSINESS

Many managers and workers are losing their jobs in major manufacturing firms. Businesses in the United States have become so productive that, compared to the past, fewer workers are needed in industries that produce goods. **Goods** are tangible products such as computers, food, clothing, cars, and appliances. Due to the increasing impact of technology and global competition, shouldn't we be concerned about the prospect of high unemployment rates and low incomes? Where will the jobs be when you graduate? These important questions force us all to look briefly at the U.S. economy and its future.

Progress in the Agricultural and Manufacturing Industries

The United States has seen strong economic development since the 1800s. The agricultural industry led the way, providing food for the United States and much of the world. Cyrus McCormick's invention of the harvester in 1834 and other inventions, such as the cotton gin, and modern improvements on such equipment did much to make farming successful. The modern farming industry has become so efficient through the use of technology that the number of farmers has dropped from about 33 percent of the population to less than 2 percent today. The number of farms in the United States declined from some 5.7 million at the beginning of the 20th century to under 2 million today. However, average farm size is now about 455 acres versus 160 acres in the past. In other words, agriculture is still a major industry in the United States. What has changed is that the millions of small farms that existed previously have been replaced by some huge farms, some merely large farms, and some small but highly specialized farms. The loss of farmwork-



ers over the past century is not a negative sign; it is instead an indication that U.S. agricultural workers are the most productive in the world.

Most farmers who lost their jobs went to work in factories. The manufacturing industry, much like agriculture, used technology to become more productive. As you read earlier in this chapter, that productivity was due to tools and machines. The consequence, as in farming, was the elimination of many jobs. Again, the loss to society is minimal if the wealth created by increased productivity and efficiency creates new jobs elsewhere—and that’s exactly what has happened over the past 50 years. Many workers in the industrial sector found jobs in the service sector. Most of those who can’t find work today are people who need retraining and education to become qualified for jobs that now exist. We’ll discuss the manufacturing sector and production in more detail in Chapter 9.

Progress in Service Industries

As noted above, many workers who could no longer find employment in manufacturing were able to find jobs in the service industry. **Services** are intangible products (i.e., products that can’t be held in your hand) such as education, health care, insurance, recreation, and travel and tourism. In the past, the dominant industries in the United States produced goods (steel, railroads, machine tools, etc.). Today, the leading firms are in services (legal, health, telecommunications, entertainment, financial, etc.). Together, services make up more than half of the American economy. Since the mid-1980s, the service industry has generated almost all of the U.S. economy’s increases in employment. Although service-sector growth has slowed, it remains the largest area of growth. Chances are very high that you’ll work in a service job at some point in your career. Figure 1.5 on page 22 lists many service-sector jobs; look it over to see where the careers of the future are likely to be. Retailers like Gap are part of the service sector. Each new retail store creates many managerial jobs for college graduates.

Another bit of good news is that there are more high-paying jobs in the service sector than in the goods-producing sector. High-paying service-sector jobs can be found in health care, accounting, finance, entertainment, telecommunications, architecture, law, and software engineering. Projections are that some areas of the service sector will grow rapidly, while others may have much slower growth. The strategy for college graduates is to remain flexible, to find out where the jobs are being created, and to move when appropriate.

Your Future in Business

Despite growth in the service sector, the service era now seems to be coming to a close as a new era is beginning. We’re now in the midst of an information-based global revolution that will alter all sectors of the economy: agricultural, industrial, and service. It’s exciting to think about the role you’ll play in that revolution. You may be a leader; that is, you may be one of the people who will implement the changes and accept the challenges of world competition based on world quality standards. This book will introduce you to some of the concepts that will make such leadership possible.

Remember that most of the concepts and principles that make businesses more effective and efficient are applicable in government agencies and non-profit organizations as well. This is an introductory business text, so we’ll tend to focus on business. Nonetheless, we’ll remind you periodically that you can apply these concepts in other areas. Business can’t prosper in the future without the cooperation of government and social leaders throughout the world.

services

Intangible products (i.e., products that can’t be held in your hand) such as education, health care, insurance, recreation, and travel and tourism.

There's much talk about the service sector, but few discussions actually list what it includes. Here's a representative list of services as classified by the government:

LODGING SERVICES

Hotels, rooming houses, and other lodging places
Sporting and recreation camps
Trailer parks and camp sites for transients

PERSONAL SERVICES

Laundries	Child care
Linen supply	Shoe repair
Diaper service	Funeral homes
Carpet cleaning	Tax preparation
Photographic studios	Beauty shops
Health clubs	

BUSINESS SERVICES

Accounting	Exterminating
Ad agencies	Employment agencies
Collection agencies	Computer programming
Commercial photography	Research and development labs
Commercial art	Management services
Stenographic services	Public relations
Window cleaning	Detective agencies
Consulting	Interior design
Equipment rental	Web design

AUTOMOTIVE REPAIR SERVICES AND GARAGES

Auto rental	Tire retreading
Truck rental	Exhaust system shops
Parking lots	Car washes
Paint shops	Transmission repair

MISCELLANEOUS REPAIR SERVICES

Radio and television	Welding
Watch	Sharpening
Reupholstery	Septic tank cleaning

MOTION PICTURE INDUSTRY

Production	Theaters
Distribution	Drive-ins

AMUSEMENT AND RECREATION SERVICES

Dance halls	Racetracks
Symphony orchestras	Golf courses
Pool halls	Amusement parks
Bowling alleys	Carnivals
Fairs	Ice skating rinks
Botanical gardens	Circuses
Video rentals	Infotainment

HEALTH SERVICES

Physicians	Nursery care
Dentists	Medical labs
Chiropractors	Dental labs

LEGAL SERVICES

EDUCATIONAL SERVICES

Libraries	Computer schools
Schools	

SOCIAL SERVICES

Child care	Family services
Job training	

NONCOMMERCIAL MUSEUMS, ART GALLERIES, AND BOTANICAL AND ZOOLOGICAL GARDENS

SELECTED MEMBERSHIP ORGANIZATIONS

Business associations	Civic associations
-----------------------	--------------------

FINANCIAL SERVICES

Banking	Real estate agencies
Insurance	Investment firms (brokers)

MISCELLANEOUS SERVICES

Architectural	Surveying
Engineering	Utilities
Telecommunications	

figure 1.5

WHAT IS THE SERVICE
SECTOR?

progress assessment

- What is the major factor that caused people to move from farming to manufacturing and from manufacturing to the service sector?
- What does the future look like for tomorrow's college graduates?

summary

1. A business is any activity that seeks to provide goods and services to others while operating at a profit.
 - **What are the relationships between risk, profit, and loss?**
Profit is money a business earns above and beyond the money that it spends for salaries and other expenses. Businesspeople make profits by taking risks. *Risk* is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable. A loss occurs when a business's costs and expenses are more than its revenues.
 - **How do businesses add to the standard of living and quality of life of a community?**
 Businesses and their employees create the wealth that people use to buy goods and services. Businesses, through taxes, also are the source of funds for government agencies and nonprofit organizations that help improve the quality of life of society. *Quality of life* refers to the general well-being of a country's people in terms of political freedom, a clean natural environment, safety, education, health care, free time, and other things that lead to satisfaction and joy (other than goods). Thus, businesses may add to both the quality of life and standard of living of society by creating the wealth needed to fund progress in those areas.
 - **What groups are considered stakeholders, and which stakeholders are most important to a business?**
 Stakeholders include customers, employees, stockholders, suppliers, dealers, bankers, people in the local community, environmentalists, and elected government leaders. The goal of business leaders is to try to balance the needs of all these stakeholders and still make a profit. That is a challenge when the opportunity for outsourcing comes up. Businesspeople often must choose between cheaper labor and more profits by sending jobs overseas or keeping their employees at home and trying to make them more productive.
 2. Entrepreneurs are people who risk time and money to start and manage a business.
 - **What importance does entrepreneurship hold in the list of the five factors of production?**
 Businesses use five factors of production: land (natural resources), labor (workers), capital (buildings and machinery), entrepreneurship, and knowledge. Of these, the most important are entrepreneurship and knowledge (managed information) because without them land, labor, and capital are not of much use.
 3. Economic factors affect business by increasing or decreasing the risks of starting a business.
 - **What are some things that the government in developing countries can do to lessen the risk of starting businesses?**
 The government may allow private ownership of businesses, pass laws that enable businesspeople to write contracts that are enforceable in court, establish a currency that's tradable in world markets, help to lessen corruption in business and government, and keep taxes and regulations to a minimum. From a business perspective, lower taxes mean lower risks, more growth, and thus more money for workers and the government.
- I. Describe the relationship of businesses' profit to risk assumption and discuss how businesses and non-profit organizations add to the standard of living and quality of life for all.
 2. Explain the importance of entrepreneurship to the wealth of an economy.
 3. Examine how the economic environment and taxes affect businesses.

4. Illustrate how the technological environment has affected businesses.
 5. Identify various ways in which businesses can meet and beat competition.
 6. Demonstrate how the social environment has changed and tell what the reaction of the business community has been.
 7. Analyze what businesses must do to meet the global challenge, which includes war and terrorism.
 8. Review how trends from the past are being repeated in the present and what such trends will mean for tomorrow's college graduate.
4. Adapting to technological change is one of the most important tasks of management.
 - **How has technology benefited workers, businesses, and consumers?**
Technology enables workers to be more effective, efficient and productive. *Effectiveness* means doing the right thing in the right way. *Efficiency* means producing items using the least amount of resources. *Productivity* is the amount of output you generate given the amount of input (e.g., hours worked). The more workers can produce in any given period of time, the more money they are worth to companies, and the more they earn.
 5. Competition among business firms has never been greater.
 - **What are some ways in which businesses meet and beat competition?**
Some companies have found a competitive edge by focusing on making high-quality products, all the way to zero defects. Companies also aim to exceed customer expectations. Often that means *empowering* frontline workers by giving them more training and more responsibility and authority.
 6. The United States is going through a social revolution that's having a dramatic impact on how people live, where they live, what they buy, and how they spend their time.
 - **How have such social changes affected businesses?**
A diverse population challenges businesses to manage a diverse workforce. As more women have entered the labor force, companies have implemented a variety of programs to assist two-income and single-parent families. Many employers provide child care benefits of some type to keep their valued employees. The biggest threat to business may be the loss of trust caused by scandals. That is why this text puts so much emphasis on business ethics.
 7. Global competition has never been greater.
 - **Which countries are creating the greatest challenge?**
China has taken over much of the production process from U.S. manufacturers. Chinese companies will continue to be a competitive threat for many years to come. India is also a major competitor, especially in providing some information services.
 - **What will be the impact of future wars and terrorism?**
Some businesses, such as those in the defense industry, may prosper. Others, such as tourism, may suffer. One way to minimize world tensions is to help less developed countries to become more prosperous.
 8. The United States has matured from an economy based on industry to one based on services and from one dominated by domestic issues to one dominated by global issues.
 - **What do these trends mean for tomorrow's graduates?**
Check over Figure 1.5, which outlines the service sector. That is where you are most likely to find the fast-growing firms of the future.
 - **What is the history of our economic development in the United States, and what does it tell us about the future?**
What has sustained the United States as the world's economic leader is the development and use of technology to improve productivity. The agricultural sector, for example, has been able to produce more food with fewer workers. Displaced agricultural workers eventually went to work in factories, producing more industrial goods. Improved productivity resulting from technology and increased competition from foreign firms combined to reduce the need for factory workers and contributed to the development

of a service economy in the United States. The service era is now giving way to an information-based global revolution that will affect all sectors of the economy. The secret to long-term success in such an economy is flexibility and continuing education to be prepared for the opportunities that are sure to arise.

key terms

business 4	goods 20	revenue 4
business environment 10	identity theft 16	risk 5
database 15	loss 4	services 21
demography 16	nonprofit organization 7	stakeholders 5
e-commerce 15	outsourcing 6	standard of living 5
empowerment 16	productivity 13	technology 13
entrepreneur 4	profit 4	
factors of production 9	quality of life 5	

critical thinking questions

Imagine that you are thinking of starting a restaurant in your community and answer the following questions.

1. Who would be the various stakeholders of your restaurant?
2. What are some of the things you could do to benefit your community other than providing jobs and tax revenue?
3. How could you establish good relationships with your suppliers? With your employees?
4. Do you see any conflict between your desire to be as profitable as possible and your desire to pay employees a living wage?
5. Which of the environmental factors outlined in this chapter might have the biggest impact on your restaurant? How?

developing workplace skills

1. Imagine that you are a local businessperson who has to deal with the various issues involved with outsourcing. You want to begin with the facts. How many jobs have been lost to outsourcing in your area, if any? Are there any foreign firms in your area that are creating jobs (insourcing)? You may want to use the Internet to find the data you need.
2. What are some of the signs that you and other people in the United States have a high standard of living? What are some signs that such a high standard of living may be negatively affecting their quality of life?

3. As a consumer and worker, it is hard to ignore the growth trend in the numbers of businesses in the service sector. Look through your local phone book to find and list five businesses that provide services in your area. For each of the five, describe how social trends might affect it. Include both negative effects and positive effects. Be prepared to explain your answers.
4. Prepare to defend or attack the idea of using personal savings accounts for helping solve the Social Security problem. Would a person your age benefit or not from such accounts? What are the advantages and disadvantages? What other potential solutions do you see for the Social Security problem?
5. Form teams of four or five students and discuss the technological and e-commerce revolutions. How many students now shop for goods and services online? What have been their experiences? What other high-tech equipment do they use (e.g., cell phones, pagers, laptop computers, desktop computers, personal digital assistants, portable music players)?

taking it to the net

Purpose

To gather data regarding trends in population and the social environment and to analyze how these changes affect American businesses.

Exercise

1. Select the link to the U.S. Population Clock from the Census Bureau's home page at www.census.gov. Record the time and the population for the United States.
2. The U.S. Commerce Department conducts an economic census every five years (in years ending with 2 and 7). How do businesses use the information gathered in this census? To help answer this question, go to the Census Bureau's home page, click on Economic Census, then click on Guide to the Economic Census. There you'll find information on the scope and use of the economic census. What are the three major ways businesses use the economic census data?
3. Return to the U.S. Census Bureau's home page. Check the population of the nation again. Has the population changed since you started this exercise? If so, how? What does this tell you about the U.S. population? How could businesses use this information?

casing the web

To access the case "Moving Up the Corporate Ladder," visit www.mhhe.com/ub8e

video case

No Clowning Around—Cirque du Soleil

Several themes were introduced in this first chapter, including the importance of entrepreneurship to the success of the overall economy, the need for entrepreneurs to take risks (and the greater the risk, the higher the profit may be), and the dynamic business environment and the challenges it presents. Few organizations in today's society are more indicative of the new challenges than Cirque du Soleil (sounds like Serk due Solay).

In the first place, Guy Laliberte took a great risk by challenging the established circus tradition. The elaborate shows are expensive to start, and the talent must be the best in the world. But the risk paid off big time with sales of almost one billion dollars per year. Cirque du Soleil creates thousands of new jobs and contributes greatly to the communities it serves. It does this not only through the taxes it pays, but through community outreach programs as well. Because of the entertainment value, Cirque contributes to both the standard of living (through the taxes it pays) and the quality of life (the fun it provides for citizens of all ages).

Like all organizations, Cirque du Soleil has many stakeholders. They include the owners, employees, and local community. The organization is especially focused on the stakeholder group called customers. It wants to put on the best show possible, and that means providing the best talent in the best locations. To reach as many people as possible, many of the shows go on the road. You can even watch some of the performances on TV.

The business environment presents many challenges to Cirque du Soleil, as it does for all businesses. The economic and legal environment of the United States greatly supports entrepreneurs like Laliberte.

The technological environment in the United States is also supportive of new business ventures. No circus in the past came close to the elaborate technological devices used by Cirque

du Soleil. The stage of the Cirque productions in Las Vegas, for example, is a huge pool that delights the audience with its ability to change from a place where the actors can seem to walk on water to one where they can dive from many feet above the pool.

The social environment is also conducive to new businesses. The diversity of the U.S. population has contributed greatly to the ability of the circus to find diverse acts and to recruit such acts from all over the world. The ability of the organization to adapt to many cultures is shown by its success in various cities throughout the world.

Of course, success is likely to breed much competition, and Cirque has its share. Even traditional circuses are tending to offer more exciting programs that reflect what Cirque has been doing for years. Competition is good for business. It prompts all businesses to offer the best products possible.

One of the best things about this video is that it allows you to see part of Cirque du Soleil in action. If you have never seen the show, search it out—even if only on TV. It is exciting and fun, and it shows that entrepreneurship is alive and well and providing wonderful new services. The result is profits for the owners and a better quality of life for us.

Thinking It Over

1. What lessons can you take from Guy Laliberte about how to be a successful entrepreneur?
2. What are some of the challenges and opportunities you see for Cirque du Soleil in today's dynamic business environment?
3. How would you compare the excitement and fun of working for a new entrepreneurial venture like Cirque du Soleil with working for a large, traditional business? What are the risks? The rewards? The challenges?