CHAPTER 1

The Changing Face of Business

Chapter Summary: Key Concepts

What Is Business?

**Business** All profit-seeking activities and enterprises that provide goods and services necessary to an economic system.

**Profits** Rewards for businesspeople who take the risks involved in blending people, technology, and information to create and market want-satisfying goods and services.

**Not-for-profit** Establishments that have primary objectives other than

**organization** returning profits to their owners. Included are all government agencies as well as private-sector nonprofits like trade organizations, charitable and religious organizations, and private educational institutions.

***Factors of Production***

**Factors of production** The basic inputs for a successful operation. The four basic inputs include natural resources, capital, human resources, and entrepreneurship.

**Natural resources** Inputs that are useful in their natural states, including land, forests, and minerals.

**Capital** Technology, tools, information, facilities, machines, and equipment.

**Human resources** Anyone who works, including physical and intellectual labor.

**Entrepreneurship** The willingness to take risks to create and operate a business.

Private Enterprise System

**Capitalism** Capitalism is another name for the Private Enterprise

System. Capitalism minimizes government interference in economic activity and rewards businesses for their ability to perceive and serve the needs of customers.

**Competitive differentiation** The unique combination of organizational abilities, products, and approaches that sets a company apart from competitors in the minds of consumers.

**Basic rights in the private** There are four basic rights. The first and most

**enterprise system** fundamental is the right to private property: the right to own, use, buy, sell, and bequeath most forms of tangible and intangible property. The second is the business owners’ right to after-tax profit. The third is the freedom of choice in employment, purchases, and investment. The fourth basic right is the right to fair competition: allowing the public to set rules for competitive activity.

**The entrepreneurship alternative** Entrepreneurs are risk takers who recognize marketplace opportunities and use their skill and capital to seize and profit from those opportunities. The entrepreneurial spirit fuels growth of the U.S. economy and supports innovation.

Six Eras of Business

**The colonial period** Prior to 1776, our economy was rural and agricultural, and relied on England for manufactured items and for the financing needed to develop.

**Industrial revolution** Beginning around 1750, the industrial revolution saw mass production by semiskilled workers, aided by machines.

**The age of the industrial** The early 1900s was an era of industrial entrepreneurship.

**entrepreneur** Inventors created virtually an endless array of commercially useful products and new production methods that created new demand for manufacturing goods and raised the overall standard of living.

**The production era** Through the 1920s, focus was on the internal process of producing more goods faster, such as the assembly line. Little attention was paid to consumer wants.

**The marketing era** Beginning with the Great Depression of the early 1930s, firms could no longer easily sell goods produced. Focus shifted to the wants and needs of the market. After World War II, demand for all kinds of consumer goods exploded, as did competition between firms.

**The relationship era** Businesses in the 21st century have been using information technology to build long-term relationships with customers and nurture customer loyalty. The results are higher revenues and lower costs.

Managing Relationships through Technology

**Relationship management** The collection of activities that build and maintain ongoing, mutually beneficial ties with customers and others parties. It involves gathering knowledge of customer needs and preferences, and applying that understanding to get as close to customers as possible.

**Technology** The activities of relationship management are based on technology: the business application of knowledge based on scientific discoveries, inventions, and innovations, often in the form of communication via Internet.

Strategic Alliances and Partnerships

Partnership An affiliation of two or more companies the help each other achieve common goals.

**Strategic alliances** A form of partnership between organizations formed to create a competitive advantage for the businesses involved.

***Today’s Business Workforce***

**Changes in the workforce** Companies face several trends that challenge their skills for managing and developing human resources. These challenges include an aging population, a shrinking labor pool, growing diversity of the workforce, changing nature of work, the need for flexibility and mobility, and the use of collaboration to innovate.

**Diversity** Blending individuals of different genders, ethnic backgrounds, cultures, religions, ages, and physical and mental abilities. Diversity can enhance the firm’s chances of success. Diverse teams tend to perform tasks more efficiently and develop better solutions to business problems.

**Outsourcing** Using outside vendors to produce goods or fulfill services and functions that were previously handled in-house

**Offshoring** The relocation of business to lower-cost locations overseas.

The 21st Century Manager

**Vision** The ability to perceive marketplace needs and what an organization must do to satisfy them.

**Critical thinking** The ability to analyze and assess information to find problems or opportunities.

**Creativity** The capacity to develop novel solutions to organizational challenges.

**Ability to steer change** Technology, marketplace demands, and global competition bring many changes. Managers must be aware of both internal and external causes for change, and they must be good at helping the organization and its people adapt and move towards common goals.

What Makes a Company Admired?

**What makes a** Solid profits, stable growth, a safe and challenging work

**company admired?** environment, high-quality products, along with business ethics and social responsibility all contribute to a company’s reputation and long-term success or failure.

**Business ethics** The standard of conduct and moral values involved in distinguishing right from wrong actions in the work environment.

**Social responsibility** Management philosophy that includes contributing resources to the community, preserving the natural environment, and developing or participating in nonprofit programs designed to promote the well-being of the general public.

Business Vocabulary

|  |  |
| --- | --- |
| brand | human resources |
| branding | natural resources |
| business | nearshoring |
| capital | not-for-profit organization |
| capitalism | offshoring |
| competition | outsourcing |
| competitive differentiation | partnership |
| consumer orientation | private enterprise system |
| creativity | private property |
| critical thinking | profit |
| diversity | relationship era |
| entrepreneurs | relationship management |
| entrepreneurship | strategic alliances |
| factors of production | technology |
| fair competition | transaction management |
| freedom of choice | vision |

Application of Vocabulary

Select the term from the list above that best completes the statements below. Write that term in the space provided.

1. List the four factors of production in the private enterprise system:

a. c.

b. d.

2.List the basic rights guaranteed to the public in the private enterprise system.

a. c.

b. d.

3. The economics system that rewards firms for their ability to perceive and serve the needs and demand of consumers is called the\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_is the process of creating an identity for a good, service, or company that is readily recognized by the firm’s intended market.

5. A name, term, sign, symbol, design, or some combination that identifies the product of one firm and differentiates it from competitors’ offerings is known as \_\_\_\_\_\_\_\_\_\_\_.

6. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the business era in which firms seek ways to build long-term relationships with customers by managing every interaction.

7. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_is the unique combination of organizational abilities and approaches that sets a firm apart from competitors in the minds of consumers.

8. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are long-term partnerships of firms designed to improve overall competitiveness.

9. In capitalism, also known as the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, success or failure depends on how well firms can perceive and meet customer needs and wants.

10. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a form of business ownership in which the company is operated by two or more people who are co-owners by voluntary legal agreement.

11. The profit-seeking activities that produce the goods and services needed by society are collectively called\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

12. Firms engaged in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ hire outside firms who are specialists to perform operations that were formally handled by the company’s own employees.

13. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the term used to describe the business application of knowledge based on science, inventions, and innovation.

14. The battle among businesses vying for consumer acceptance is known as\_\_\_\_\_\_\_\_\_\_\_.

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15. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the managerial quality of being able to perceive marketplace needs and what an organization must do to satisfy them.

16. Outsourcing production or services to locations near a firm’s home base is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

17. In the marketing era of business development, firms adopted a \_\_\_\_\_\_\_\_\_\_\_\_, which means they find out what customers want and need and then design products to meet those needs.

18. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the relocation of business processes to lower-cost locations overseas.

19. The four basic inputs for effective operation are collectively known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, which includes natural resources, capital, human resources, and entrepreneurship.

20. Risk takers who initiate economic activity in the private enterprise system are known as\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

21. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the U.S. workforce enhances innovation, creativity, and sensitivity to the multicultural marketplace by blending individuals of different genders, ethnic backgrounds, cultures, religions, ages, and physical and mental abilities.

22. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ skills include the ability to analyze information and assess its authenticity, accuracy, and worth; to evaluate arguments; and to identify crucial issues and solutions.

23. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the collection of activities that build and maintain ongoing, mutually beneficial ties with customers and other parties.

24. Before the 1990s, businesses tended to rely on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. This approach focused on current sales and profits instead of thinking about the future benefits of creating long-term customers.

25. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the capacity to develop novel solutions to perceived organizational problems and to see better and different ways of doing business.

26. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ include all public sector government agencies as well as many private sector organizations such as labor unions, museums, and religious organizations.

Analysis of Learning Objectives

**Learning Objective 1.1:** Define what is business.

True or False

1. \_\_\_\_\_ In the private enterprise system, businesses are the primary providers of the goods and services needed by society.

2. \_\_\_\_\_ Not-for-profit organizations face some of the same challenges as businesses that are profit-oriented.

3. \_\_\_\_\_ While religious and charitable organizations are not-for-profits, government agencies are not.

4. \_\_\_\_ Only profit-seeking organizations face competition.

**Learning Objective 1.2:** Identify the factors of production.

***Multiple Choice***

1. These are product inputs that are useful in their natural states:

a. natural resources. c. entrepreneurship.

b. human resources. d. capital.

2. Production inputs consisting of technology, tools, information, and physical facilities are called:

a. capital. c. natural resources.

b. human resources. d. entrepreneurship.

3. Production inputs consisting of anyone who works, including both physical and intellectual labor are called:

a. natural resources. c. entrepreneurship.

b. human resources. d. capital.

4. The willingness to take risks to create and operate business is known as:

a. capital. c. natural resources.

b. human resources. d. entrepreneurship.

**Learning Objective 1.3:** Describe the private enterprise system.

True or False

1. \_\_\_\_\_ Private enterprise and capitalism are two different economic systems.

2. \_\_\_\_\_ People who take the risks of pursuing a business opportunity are called entrepreneurs.

3. \_\_\_\_\_ Profits are both the reward and the incentive for risk taking.

4. \_\_\_\_\_ Entrepreneurship does not require taking risks.

5. \_\_\_\_\_ Business competition is healthy and beneficial to consumers.

6. \_\_\_\_\_ Freedom of choice means that firms will have the right to compete fairly.

7. \_\_\_\_\_ Fair competition is a basic right required under the private enterprise system.

**Learning Objective 1.4:** Identify the six eras in the history of business.

True or False

1. \_\_\_\_\_ The colonial era was characterized by a factory system and the growth of large cities.

2. \_\_\_\_\_ The production era marked the beginning of a major emphasis on marketing in the business world.

3. \_\_\_\_\_ During the marketing era, advertisement took a back seat as a business strategy.

4. \_\_\_\_\_ The relationship era is driven by information technology that allows firms to form long-term relationships with customers.

5. \_\_\_\_\_ The sales era, which entailed overcoming customer resistance, was a result of the Great Depression.

6. \_\_\_\_\_ Carnegie, Vanderbilt, and McCormick are examples of industrial entrepreneurs.

***Multiple Choice***

7. A partnership formed to create competitive advantage for the businesses involved is  
called a:

a. social responsibility. c. strategic alliance.

b. vision. d. global market.

8. Managing technology means:

a. using technology to provide new goods and services for customers.

b. using technology to improve customer service while lowering prices.

c. being aware of new questions about business ethics and social responsibility.

d. all of the above.

1. Management philosophy that includes preserving the natural environment is known as:

a. social responsibility. c. strategic alliance.

b. global market. d. vision.

**Learning Objective 1.5:** Explain how today’s business workforce, and the nature of work itself, is changing.

True or False

1. \_\_\_\_\_ More and more firms are relocating business operations to lower cost locations overseas.

2. \_\_\_\_\_ Internet use has hindered the ability for businesses to outsource.

3. \_\_\_\_\_ Experts predict a decline in the number of older adult workers in the coming years.

4. \_\_\_\_\_ In recent years, China has become a major location for production offshoring.

5. \_\_\_\_\_ Cubicle jobs are predicted to become obsolete.

**Learning Objective 1.6:** Identify the skills and attributes needed for the 21st-century manager.

Short Answer

Describe why creativity is an important quality for today’s managers. What are some ways that potential or preexisting managers can practice channeling their creativity?

**Learning Objective 1.7:** Outline the characteristics and attributes that make a company admired.

Multiple Choice

1. The standards of conduct and moral values that admired companies practice are known as:

a. vision. c. social responsibility.

b. creativity. d. business ethics.

2. The call for greater social responsibility among admired business means:

a. businesses should focus exclusively on short-term profit goals.

b. businesses should focus exclusively on the interests of the owners and  
managers.

c. management should consider the social and economic effects of management  
decisions.

d. management should consider giving away all the firm’s profits for good causes.

3. Failure to behave ethically:

a. can be costly in the long-run.

b. can spoil a company’s image.

c. will damage efforts to build long-term customer relationships.

d. all of the above.

4. Admired companies generate stable profits, which is defined as:

a. the difference between receipts and expenditures.

b. a firm’s sales revenues.

c. the cost of production.

d. net sales.

e. assets minus debts.

5. Employees in an admired company work in an environment they find to be:

a. challenging. c. simple.

b. stress-free. d. homogeneous.

Self Review

True or False

1. \_\_\_\_\_\_ A simplistic definition of business would be: All profit-seeking activities and enterprises that provide products and services needed or desired in an economic system.

2. \_\_\_\_\_\_ The majority of businesses in the United States are owned by the government.

3. \_\_\_\_\_\_ Technology is an example of capital.

4. \_\_\_\_\_\_ The factor payment for the use of capital is profit.

5. \_\_\_\_\_\_ The most basic freedom under the free enterprise system is the right to private property.

6. \_\_\_\_\_\_ The industrial revolution involved mass production, the specialization of labor, and the development of machines and the railroads.

7. \_\_\_\_\_\_ Even today, marketing is synonymous with selling.

8. \_\_\_\_\_\_ Diverse work groups often prove to be more effective.

9. \_\_\_\_\_\_ In the 21st century, managers will have to find the best way to connect people, technology, and ethics to form strong partnerships with customers, employees, and other organizations.

10. \_\_\_\_\_\_ Managers can expect the rate of change to slow in the future.

11. \_\_\_\_\_\_ The marketing era introduced the idea that a firm should identify and satisfy consumer wants and needs.

12. \_\_\_\_\_\_ Business managers should link their private profiles to their business’ profile on social media sites in order to demonstrate to clients that they have a down to earth personality.

Multiple Choice

1. The *Wealth of Nations* was written by:

a. Paul Samuelson. c. Adam Smith.

b. Karl Marx. d. John Galbraith.

2. A capitalist economic system could also be called:

a. a community interest system.

b. a Utopian system.

c. a futile system.

d. a private enterprise system.

3. The factor payment that rewards entrepreneurship is:

a. interest. c. interest.

b. wages. d. rent.

4. The U.S. workforce in the 21st century can be expected to:

a. require greater skill and flexibility.

d. do less telecommuting.

b. be less mobile. e. include fewer older workers.

c. be less diverse.

5. An entrepreneur is defined as a(n):

a. government employee. d. monopolist.

b. risk taker. e. executive.

c. professional manager.

6. Laws that prohibit price discrimination and deceptive advertising practices are  
included in the right to:

a. private property. c. freedom of choice.

b. profits. d. fair competition.

7. The right of the risk taker to retain his or her after-tax earnings is the right to:

a. freedom of choice. c. private property.

b. fair competition. d. profits.

8. In the free enterprise system, the individual’s right to select a career is one example  
of:

a. private property. c. freedom of choice.

b. profits. d. fair competition.

9. Which of the following is *NOT* oneof the factors of production?

a. wages d. natural resources

b. human resources e. capital

c. entrepreneurship

10. The “invisible hand of competition” refers to:

a. Uncle Sam’s taxation of your earnings.

b. the problem of shoplifting in American retailing.

c. the way competition in a market economy produces high quality and low prices.

d. the need for government regulation to ensure high quality and low prices.

Application Exercises

Jamal is preparing a presentation on the factors of production through his observations at a local book and snack shop. List the four factors of production Jamal will discuss. For each, provide a specific example that might pertain to the book and snack shop business.

Short Essay Questions

1. Describe the qualities that are necessary for a 21st century manager.

2. What is *relationship management*, and how can it enhance business prospects?