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 organizations

Establishments that have primary objectives other than 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 enterprise system

There are four basic rights. The first and most 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 entrepreneur
The early 1900s was an era of industrial entrepreneurship. 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 company admired?
Solid profits, stable growth, a safe and challenging work 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 organizations
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 basic rights guaranteed to the public in the private enterprise system:
   a. 
   b. 
   c. 
   d. 

2. List the four factors of production in the private enterprise system:
   a. 
   b. 
   c. 
   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 a form of business ownership in which the company is operated by two or more people who are co-owners by voluntary legal agreement.

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 battle among businesses vying for consumer acceptance is known as ____________.

7. ______________________ ____ is the unique combination of organizational abilities and approaches that sets a firm apart from competitors in the minds of consumers.
8. 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.

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

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

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. __________________________ are long-term partnerships of firms designed to improve overall competitiveness.

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. __________________________ include all public sector government agencies as well as many private sector organizations such as labor unions, museums, and religious organizations.
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. _________________________ skills include the ability to analyze information and assess its authenticity, accuracy, and worth; to evaluate arguments; and to identify crucial issues and solutions.

Analysis of Learning Objectives

Learning Objective 1.1: Distinguish between business and not-for-profit organizations and identify the factors of production.

True or False
1. _____ In the private enterprise system, businesses are the primary providers of the goods and services needed by society.

2. _____ Business and not-for-profit organizations both have as their primary objective the return of profits to the owners.

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. natural resources. c. entrepreneurship.
   b. human resources. d. capital.

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. natural resources.  c. entrepreneurship.
   b. human resources.  d. capital.

**Learning Objective 1.3:** Describe the private enterprise system, including basic rights and entrepreneurship.

**True or False**

1. _____ Over the long run, competition ensures that organizations who provide superior customer satisfaction will be more successful than those who do not.

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. _____ The right to private property is not a requirement of the private enterprise system.

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:** Describe the six eras of business and explain how the relationship era, including alliances, technology, and environmental concerns influence contemporary business.

**True or False**

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

2. _____ The production era focused on mass production while increasing the productivity of manufacturing processes.

3. _____ In the marketing era, firms produced a product, and marketing was simply selling that product.

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. strategic alliance    c. vision.
   b. social responsibility. 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.

9. Management philosophy that includes preserving the natural environment is known as:
   a. strategic alliance    c. vision.
   b. social responsibility. d. global market.

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. ____ Outsourcing refers to the increased globalization of business.

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

4. ____ In the future, businesses will need to focus less on diversity and more on a homogeneous workforce.

5. ____ Diverse workteams are more effective and provide more solutions than non-diverse workteams.

Learning Objective 1.6: Identify the skills and attributes managers need to lead businesses in the 21st century.

**Short Answer**

Name and define the four most important qualities that will be required of managers in today’s organizations.

1. 

2. 
Learning Objective 1.7: Outline the characteristics and attributes that make a company admired by the business community.

Multiple Choice

1. The standards of conduct and moral values that admired companies practice are known as:
   a. social responsibility.  
   b. business ethics.  
   c. creativity.  
   d. vision.

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. simple.  
   c. stress-free.
Chapter 1: The Changing Face of Business

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. ______ Each factor of production generates a financial return.

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. ______ Studies indicate that diverse employee teams and workforces tend to be less effective and creative than groups made up of people who are all alike.

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.______ Government agencies, public schools, and labor unions are all good examples of organizations in the not-for-profit sector of the U.S. economy.

**Multiple Choice**

1. The *Wealth of Nations* was written by:
   a. Paul Samuelson.  
   b. Karl Marx.  
   c. Adam Smith.  
   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. profit.  c. wages.
   b. interest.  d. rent.

4. The U.S. workforce in the 21st century can be expected to:
   a. be less diverse.  d. include fewer older workers.
   b. be less mobile.  e. do less telecommuting.
   c. require greater skill and flexibility.

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. private property.  c. freedom of choice.
   b. profits.  d. fair competition.

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 one of the factors of production?
   a. natural resources  d. entrepreneurship
   b. human resources  e. wages
   c. capital

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**
The history department at your college requires that each student enrolled in History 201 give a five-minute oral presentation. Tamar Seigel decides to give her presentation on the history of business in the United States. To cover the time span from the colonial society to the current business era, she decides to mention two important aspects of each stage of development. Tamar has not had a business course, and she asks you to be her “expert consultant.” List two main aspects she should include for each era.

1. The colonial society.

2. The Industrial Revolution.

3. The age of industrial entrepreneurs.

4. The production era.

5. The marketing era.

6. The relationship era.

Short Essay Questions

1. Define the four basic rights awarded to citizens living in a private enterprise economy. How important are these rights?
2. What is *relationship management*, and how can it enhance business prospects?