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Learning Resource

Role of Business: Why It Matters

Why learn about the role of business in society?

Are you up for a challenge as you start this course?

As you embark on your study of business, you may be thinking that so much of what you will learn in school isn't applicable to your career or future—you aren't really going into business, for instance. Here's a challenge that may change your mind.

Stop what you are doing and take a minute to look around you. What do you see? Perhaps you see your living room, where you're sitting at your desk doing your homework. You might be at a local coffee shop, hanging out with some friends who are going to help you study. Or maybe you're sitting on the beach, reading this on your tablet or phone while you listen to the sounds of the ocean and children playing in the sand.

Now, look around again, but this time consider everything within your view and ask yourself what all of these things have in common? If you said that they are all the product of business, then you're right! How can that be, you ask? Business is everywhere, in everything we touch, eat, see, smell, and feel. Oh, not always directly, but in one way or another business is there. It's like the air that we breathe—mostly invisible, but always present.

The next part of the challenge is this: As you work through this first section, keep trying to think of something, anything, that you can say with certainty has no relationship to business. We will check back later and see what you came up with!

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Getting Down to Business

What you'll learn to do: Explain the concept of business

The concept of business has enough definitions and applications that we could almost say that everything is business. Throughout this course we will explore the various functions, roles, and characteristics of business while keeping in mind that business is like the air we breathe—it's everywhere!

Learning Outcomes

- Define the term *business*
- Distinguish between *profit, loss*, and *value*
- Distinguish between *goods* and *services*

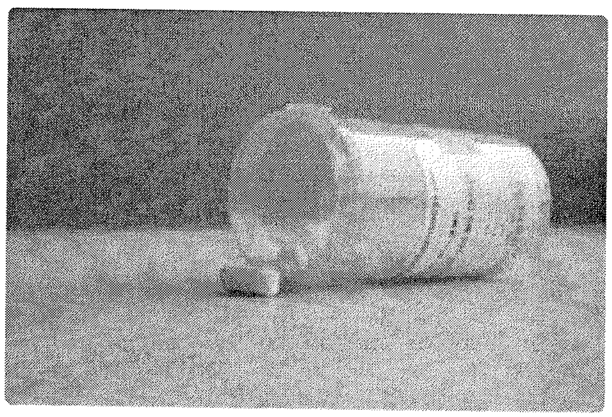
Today's Business Environment

The world of business today can be summed up in a single word: change. And not just change, but rapid change. In order to remain profitable and competitive, businesses today are finding that they need to be more responsive than ever to customer demands. This is not only true of big companies like Apple, Nike, and Whole Foods but of smaller businesses, too—like your local hardware or grocery store. The rapidly changing business environment affects them all.

What is the business environment? In some ways it resembles the natural environment in which we live: It's all around us but not always noticeable. It includes things like technology, competitors (other businesses), advertising, regulations, consumer demands, and money.

When these elements of the business environment change—in the same way that seasons and weather change—companies need to be able to predict, react, and adapt accordingly. Those that fail to do so may find themselves out in the rain or cold and struggling to survive.

Although the environment in which businesses operate is always changing, the accelerated pace of change presents special challenges and opportunities for businesses today. To get a sense of this rapid and dramatic change, consider something that's fairly routine for Americans: getting a prescription filled. A couple of decades ago, you would have taken a written prescription from your doctor to your local drugstore and presented it to the pharmacist. Then, while waiting for it to be filled, you might have leafed through magazines or browsed the store for extra items—perhaps shampoo or a greeting card. When your name was called, you probably paid in cash or wrote a check. All such transactions took place during normal business hours—Monday–Friday, 9 a.m.–5 p.m.; larger pharmacies may have been open for a few hours on Saturday.

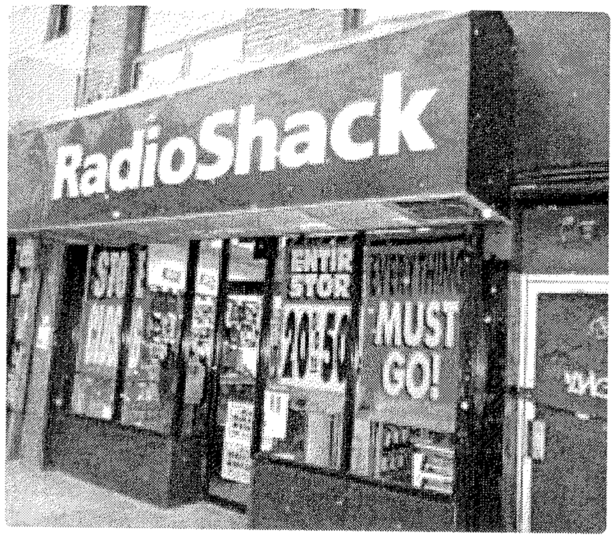


What about now? Think about the last time you had a prescription filled. Did you ever even see it? Chances are you went to the doctor, and at the end of your visit she faxed the prescription straight to the pharmacy (perhaps a Rite-Aid, Walgreens, or Duane Reade). A little while later, you may have received a text message notifying you that your prescription was ready. Since it wasn't convenient for you to pick it up during the workday, and because it's a 24-hour pharmacy, you went at night. You pulled up to the drive-through window and paid using Apple Pay or Google Wallet. Afterward you verified that you received points on your customer loyalty card, which means savings or cash that can be applied to future purchases. You never set foot inside the store.

Alternatively, you may have gotten your prescription filled online and mailed right to your home by a national discount supplier or maybe chose to pick it up at Walmart or Target when you stopped in to shop for a new garden hose.

You can see from this example that the way companies "do business" is very different today. Some of these changes are the result of developments in technology, while others are the result of shifting consumer demands and trends. Regardless of the particular cause, though, all businesses have to cope with the changing nature and pressures of the business environment. A large part of this course will focus on the ways in which they do just that.

Defining Business



So, what is this thing we call "business"? A **business** is any activity that provides goods or services to consumers for the purpose of making a profit. Examples of **goods** provided by a business are tangible items such as cars, televisions, or soda. A **service** is a consumable, one-time benefit. Services include things such as haircuts, hotel stays, or roller-coaster rides. Business can generate profits from the sale of goods and/or services, and profits are the financial reward that comes from taking the risk of running or owning a business. More specifically, **profit** is the amount of revenue or income that a business owner retains after paying all the expenses associated with the operation of the business. If the expenses of the business exceed the revenue or income generated from operations, then the business will suffer a **loss**. Businesses that suffer extraordinary losses during a short period of time, or slowly see their profits decline, may end up closing or filing for bankruptcy.

Clearly the goal of most businesses is to generate a profit by increasing revenue while holding expenses in check, and one of the chief ways they do this is by providing their customers with value. When businesses talk about **value**, they are referring to the relationship between the price a customer pays for the good or service and the perceived benefits the customer receives in exchange for his or her time and money. Value has become such a key component of today's business model that if you go to almost any fast-food restaurant you'll find a "value meal" or "value menu" advertised. Businesses are sending the message to their customers that they'll receive the most "bang for the buck" or the highest value in terms of quantity obtained in exchange for money spent. It's a business model based on the belief that if you give your customers value, the profit will follow. As you'll see in the next section, while all businesses seek to increase their revenue, what a business actually does with those funds can vary and depends on whether it's a for-profit or nonprofit organization.

Check Your Knowledge

Answer the following questions to see how well you understand the topics covered in this chapter. This short quiz does not count toward your grade in the class, and you can retake it as many times as you wish.

Use this quiz to decide whether to study the chapter further or move on.

Choose the **BEST** answer.

Question 1

The amount a business earns after deducting what it spends for rent, salaries, and other expenses is

- revenue
- interest
- profit

Question 2

A motel provides both services and goods. Which of the following is an example of a good provided by a motel?

- offering rooms for rent
- offering a bathrobe that you can purchase to take home with you

offering free sample size shampoo and soap

Question 3

Glenda opened a tax accounting business where she works with small businesses to manage their finances and prepare their records for tax season. Glenda's primary objective when she opened her business was

- improving personal skills
- making a profit
- educating businesses on tax law

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Profits and Purpose

What you'll learn to do: Distinguish between for-profit and nonprofit businesses

We defined business earlier as an organization that provides goods, services, or both, to their customers, clients, or consumers in order to make a profit. That definition, although accurate, does not account for those organizations and businesses that aren't driven by the "bottom line" or profitability. Instead, some organizations provide their goods and services in order to generate revenues (income) that can be used to further their purpose or mission. It is highly likely that you have been involved with a nonprofit organization, and though it may not have seemed like it at the time, you were actually working with a business! In this section we'll dig a little deeper into this idea of for-profit versus nonprofit business.

Learning Outcomes

- Explain the purpose of for-profit businesses
- Explain the purpose of nonprofit businesses/organizations

A **nonprofit** or **not-for-profit business** is one that provides goods or services to consumers, but its primary goal is not to return profit to the owners of the business (as is the case with a for-profit business). Instead, it uses those profits to provide a public service, advance a cause, or assist others. The American Red Cross, the local SPCA, and the American Cancer Society are all examples of nonprofit businesses. They use any revenue generated from operations to support the continued mission of the organization. In addition, most nonprofits also rely on donations from individuals and businesses, grants, and government funding to help fund their work, since the revenue they raise rarely covers all their operating costs.

Much of what differentiates a for-profit business from a nonprofit business goes on behind the scenes and isn't very visible to the customer. For example, a nonprofit organization is subject to government regulation and oversight in ways that differ significantly from a for-profit business: Nonprofits do not pay taxes on their revenue, but how their funds are disbursed and their operations are managed is tightly regulated.

Despite their differences, nonprofits and for-profits have some fundamental business principles and practices in common. Let's explore these shared aspects by comparing two businesses—one for-profit and one nonprofit.

Molly's For-Profit Lemonade Stand

Molly opens a lemonade stand in front of a local museum and intends to use her profits to purchase a new bike at the end of the summer. There are expenses associated with Molly's business such as lemons, sugar, cups, and ice. She also spends money on advertising when she prints up flyers and makes directional signs to alert customers to her location. She hires Jamie to help her on busy weekends and pays her a percentage of the stand's revenue on the days she works. She has T-shirts printed at a local shop with her slogan on the back: "When life gives you lemons, Molly makes lemonade." She sells the shirts at her stand for $10 each. A local bakery owner sees that Molly's business is thriving and asks if she can sell her cookies at the lemonade stand. Molly arranges to sell the cookies for the bakery and keep 25 percent of the revenue generated from cookie sales.

Molly is running a for-profit business and generates revenue from several sources (lemonade, T-shirts, and cookies). Every day, after packing up her stand, she goes home and calculates her profit by subtracting her expenses (wages to Jamie, advertising, T-shirts, and supplies) from her revenue. She takes the profit and deposits it in the bank account her father helped her open.

At the end of the summer, Molly can withdraw the money from the bank account and buy the bike she wants. If she has profits left after she buys the bike, she can do whatever she wants with that money. As a for-profit business owner, she owns all the profits.

Emma's Nonprofit Lemonade Stand

Emma opens a lemonade stand in front of a local museum and intends to donate her profits to the local Humane Society to support their Feline Hope program. Besides that difference of purpose, Emma's business is nearly identical to Molly's: There are expenses associated with Emma's business for supplies, advertising and hired help, and she also stocks a bakery's cookies for a cut of the profits.

Emma is running a not-for-profit business and generates revenue from several sources (lemonade, T-shirts, and cookies). Like Molly, after packing up her stand, she goes home and calculates her profit by subtracting her expenses (wages to Linda, advertising, T-shirts, and supplies) from her revenue. She takes the profit and deposits it in the bank account her father helped her open.

At the end of the summer, Emma can withdraw the money from the bank account and deliver a check to the Humane Society. If the business has profits in excess of what she promised to donate to the Humane Society, Emma can pay herself a *small* wage for running the business all summer, but the majority of the profits will either need to stay in the bank account to fund future causes or be used to expand the business to support charitable or social causes later on. Emma isn't really a business "owner," because she doesn't own the profit generated by the business. We'd expect to hear Emma say that she's *running* a not-for-profit (or nonprofit) organization—in contrast to Molly, who would probably say that she owns a business.

For-Profit	**Not-for-Profit/Nonprofit**

Incurs expenses for operations	Incurs expenses for operations
Provides goods and services to customers	Provides goods and services to customers
Generates revenues from sales	Generates revenues from sales **and/or contributions**
Owned by individuals, partners, or shareholders	**Operated by board of directors, trustees, or managers**
Profit is used to pay owners, partners, or shareholders	Profit is used to further the mission of the organization
Pays salaries to employees and managers	Pays salaries to employees and managers
Profits are subject to taxation by local, state, and federal authorities	**Profits are NOT subject to taxation by local, state, and federal authorities**

Check Your Knowledge

Answer the following questions to see how well you understand the topics covered in this chapter. This short quiz does not count toward your grade in the class, and you can retake it as many times as you wish.

Use this quiz to decide whether to study the chapter further or move on.

Choose the **BEST** answer.

Question 1

The primary goal of a nonprofit business is to ________.

- use its revenues to provide a public service
- maximize profits for owners
- invest in its employees' development of new skills

Question 2

Which of the following is an example of a for-profit business?

- Make-a-Wish Foundation
- Internal Revenue Service
- Walmart

Question 3

For a for-profit business, the primary goal is to _______.

- contribute to society
- fulfill its mission
- maximize profits for owners

Although these may be very simple examples, they show that, from a customer's perspective, there is virtually no difference in the way the two businesses operate. Emma might decide to advertise that her proceeds support an important cause (the Humane Society's Feline Hope program) as a way of attracting customers. If not, the two lemonade stands would seem nearly identical from the outside.

It's not until you look behind the scenes that you will see the differences between a for-profit and nonprofit business. The following table compares the attributes of for-profit and not-for-profit businesses, and highlights some of the "hidden" differences.

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Factors of Production

What you'll learn to do: List and explain the four factors of production required to sustain a business

When businesses use resources to produce things, we call these factors of production. In this section we will examine the **factors of production** and see how they contribute to the outputs of a business.

Learning outcomes

- List the four factors of production
- Explain the four factors of production

Introduction

All businesses, both for-profit and nonprofit, need resources in order to operate. Simply put, resources are the **inputs** used to produce **outputs** (goods and/or services). Resources are also called **factors of production**. What makes something a resource? For one thing, it needs to be *productive.*

The following video will give you an overview of what economists mean when they talk about resources or factors of production.

https://youtu.be/0PgP0dXAGAE (https://youtu.be/0PgP0dXAGAE)

There are four categories of resources, or factors of production:

- Natural resources (land)

- Labor (human capital)
- Capital (machinery, factories, equipment)
- Entrepreneurship

Natural Resources

Natural resources have two fundamental characteristics: (1) They are found in nature, and (2) they can be used for the production of goods and services. In order to provide benefit, people first have to discover them and then figure out how to use them in the the production of a good or service. Examples of natural resources are land, trees, wind, water, and minerals.

A key feature of natural resources is that people can't make them. They also tend to be limited. New natural resources—or new ways of extracting them (such as fracking, for example)—can be discovered, though. These natural resources can be renewable, such as forests, or nonrenewable, such as oil or natural gas. It's also possible to invent new uses for natural resources (using wind to generate electricity, for example). Resources that are cultivated or made with human effort can't be considered natural resources, which is why crops aren't natural resources.

Labor

Labor refers to human resources (also called human capital)—physical or intellectual. You're adding to your own human resources right now by learning. You may possess certain human resources already—perhaps you have an athletic gift that enables you to play professional ball to earn a living, for example—but you can also develop them through job training, education, experience, and so on.

The word *labor* often calls to mind physical labor—working in a factory or field, constructing a building, waiting tables in a restaurant—but it can refer to any human input (paid or unpaid) involved in the production of a good or service. This broader definition of labor is particularly important in today's technology-driven business environment, which has come to rely much more on the intellectual contributions of the labor force than the physical labor required of, say, working in a production line. Intellectual contributions include experience in and out of school, training, skills, and natural abilities. In order to remain competitive, businesses place a premium on employees who bring these "soft skills" to the table. Many of the advances in our world today are the result of the application of intellectual human resources.

Finally, labor brings creativity and innovation to businesses. Businesses use human creativity to address changes in consumer preferences, and to invent goods and services that consumers haven't even imagined yet. Without creativity, innovation would stall, and economies would stagnate.

Capital

Before we discuss **capital**, it's important to point out that money is NOT a resource. Remember that resources need to be *productive*. They have to be used to make something else, and money can't do that. Money certainly helps the economy move along more efficiently and smoothly, like grease for the economic machine. But in and of itself, it can't produce anything. It's used to acquire the productive resources that can produce goods and services. This confusion is understandable, given that businesspeople frequently talk about "financial capital," or "investment capital," which does mean money.

In contrast to natural resources, capital is a resource that *has been* produced, but is also used to produce *other* goods and services. This factor of production includes machinery, tools, equipment, buildings, and technology. Businesses must constantly upgrade their capital to maintain a competitive edge and operate efficiently. In the last couple of decades or so, businesses have faced unprecedented technological change and have had to meet the demands of consumers whose lives increasingly take place in a virtual world. Almost every business has a web presence, and many customers are more accustomed to interacting with a virtual version of the business than a brick and mortar store.

Entrepreneurship

Thus far we have looked at natural resources, human resources, and capital as three inputs needed to create outputs. The last one we need to consider is perhaps the most important: **entrepreneurship**. This resource is a special form of labor provided by an entrepreneur. An entrepreneur is someone who is willing to risk his or her time and money to start or run a business—usually with the hope of earning a profit in return. Entrepreneurs have the ability to organize the other factors of production and transform them into a business. Without entrepreneurship many of the goods and services we consume today would not exist.

Let's use the example of baking a cake:

Factor of Production

Natural Resource	Wind harnessed to produce electricity that powers the electric mixer and oven
Human Resource	The baker's labor combined with the creativity and skills needed to actually bake and decorate it
Capital	Ovens, cake pans, flour, sugar, butter, and other ingredients used to make the cake
Entrepreneurship	An individual who starts the bakery or runs a home-based business baking and selling cakes to customers

If you consider just *some* of the factors of production involved in baking even a very simple cake, what would happen if one of the four inputs were missing? What if you lacked electricity or an oven? What if you lacked the skills to bake or decorate the cake? What if you had the first three factors of production but not the fourth, entrepreneurship? You can surmise that **all four** factors of production are required to create the outputs that would get you into the cake business—or any business.

Check Your Knowledge

Answer the following questions to see how well you understand the topics covered in this chapter. This short quiz does not count toward your grade in the class, and you can retake it as many times as you wish.

Use this quiz to decide whether to study the chapter further or move on.

Choose the **BEST** answer.

Question 1

Which of the following is one of the factors of production?

- natural resources
- money
- shares of stock

Question 2

Resources that can be used to produce other goods and services and have been produced are________.

- natural resources
- human resources

capital

Question 3

Human intellect and creativity falls into which of the following four factors of production?

natural resources

human resource

capital

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Functional Areas of Business

What you'll learn to do: Identify the primary functional areas within a business and describe their contribution to the organization

The decisions about how best to use the factors of production to provide the goods or services of the business require a team of people working in a variety of jobs. As businesses grow larger and their products and services become more complex, the number of functional areas within a business grows. Each functional area makes specific and valuable contributions to the organization as a whole. In this section we will explore some of the most common functional areas in a business and how each contributes to the overall success of the business.

Learning Outcomes

- Identify the primary functional areas within a business
- Identify key people and explain the activities within each functional area

Introduction

Just as different functions in the human body are performed and regulated by different organs, different functions within a business are performed and controlled by different parts of the business. One of the reasons for separating business operations into functional areas is to allow each to operate within its area of expertise, thus building efficiency and effectiveness across the business as a whole. The key functional areas of a business are the following:

- Management
- Operations

- Marketing
- Accounting
- Finance

Management

The primary role of managers in business is to supervise other people's performance. Most management activities fall into the following categories:

- **Planning**: Managers plan by setting long-term goals for the business, as well short-term strategies needed to execute against those goals.
- **Organizing**: Managers are responsible for organizing the operations of a business in the most efficient way, enabling the business to use its resources effectively.
- **Controlling**: A large percentage of a manager's time is spent controlling the activities within the business to ensure that it's on track to achieve its goals. When people or processes stray from the path, managers are often the first ones to notice and take corrective action.
- **Leading**: Managers serve as leaders for the organization, in practical as well as symbolic ways. The manager may lead work teams or groups through a new process or the development of a new product. The manager may also be seen as the leader of the organization when it interacts with the community, customers, and suppliers.

Operations

Operations is where inputs (factors of production) are converted to outputs (goods and services). Operations is like the heart of a business, pumping out goods and services in a quantity and of a quality that meets the needs of the customers. The **operations manager** is responsible for overseeing the day-to-day business operations, which can encompass everything from ordering raw materials to scheduling workers to produce tangible goods.

Marketing

Marketing consists of all that a company does to identify customers' needs and design products and services that meet those needs. The marketing function also includes promoting goods and services, determining how the goods and services will be delivered, and developing a pricing strategy to capture market share while remaining competitive. In today's technology-driven business environment, marketing is also responsible for building and overseeing a company's Internet presence (e.g., the company website, blogs, social media campaigns, etc.). Today, social media marketing is one of the fastest growing sectors within the marketing function.

Accounting

Accountants provide managers with information needed to make decisions about the allocation of company resources. This area is ultimately responsible for accurately representing the financial transactions of a business to internal and external parties, government agencies, and owners/investors. **Financial accountants** are primarily responsible for the preparation of financial statements to help entities both inside and outside the organization assess the financial strength of the company. **Managerial accountants** provide information regarding costs, budgets, asset allocation, and performance appraisal for internal use by management for the purpose of decision-making.

Finance

Although related to accounting, the finance function involves planning for, obtaining, and managing a company's funds. **Finance managers** plan for both short- and long-term financial capital needs and analyze the impact that borrowing will have on the financial well-being of the business. A company's finance department answers questions about how funds should be raised (loans vs. stocks), the long-term cost of borrowing funds, and the implications of financing decisions for the long-term health of the business.

Check Your Knowledge

Answer the following questions to see how well you understand the topics covered in this chapter. This short quiz does not count toward your grade in the class, and you can retake it as many times as you wish.

Use this quiz to decide whether to study the chapter further or move on.

Choose the **BEST** answer.

Question 1

What business function is responsible for making sure that organizational strategies and goals are aligned with staffing plans?

- operations
- management
- accounting

Question 2

InfoTech is a computer application firm based in Silicon Valley and has been responsible for introducing some of the highest rated applications available for personal productivity. Two brothers originally founded the company, but they quickly realized they needed to convert the business into a corporation and establish functional areas within the company to handle various aspects of operations. The company is now considering expanding operations by building a production facility in another country. The Board of Directors has approved this move, and now it will become the responsibility of which functional area to secure the necessary funding for the expansion?

- marketing
- accounting
- finance

Question 3

What function is responsible for ensuring that products and services, which are produced or provided, meet high quality standards?

- finance

accounting

operations

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Business Stakeholders

What you'll learn to do: Identify business stakeholders and describe their relationship with business organizations

Just as it takes many parts to make a business run smoothly, there are many people, organizations, and entities that have a "stake" in the success of a business. In this section we'll take a look at who these stakeholders are and how they affect business.

Learning Outcomes

- Define internal and external stakeholder
- Describe stakeholders' relationship with business organizations

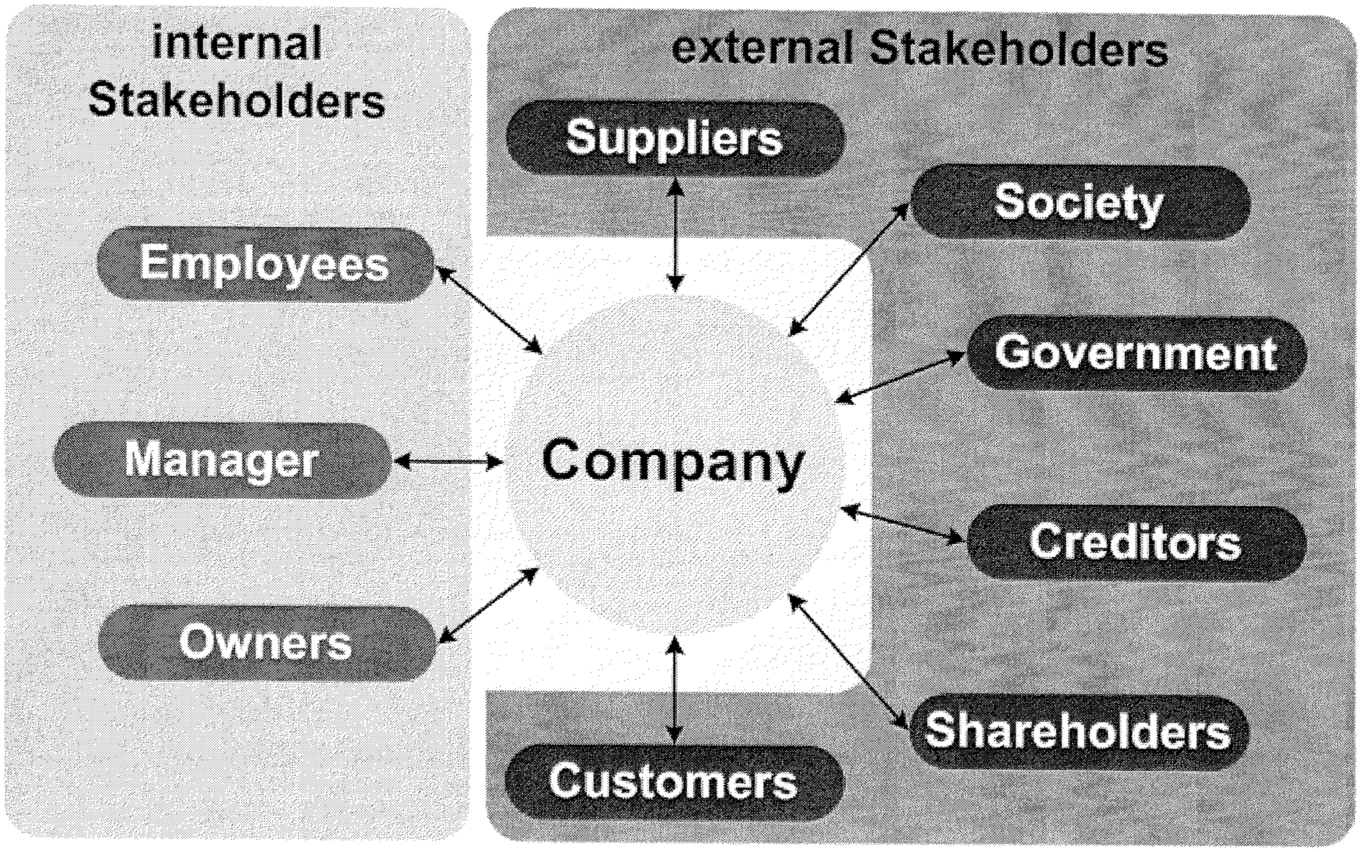
What Is a Stakeholder?

A **stakeholder** is an individual or group that has a legitimate interest in a company, organization, or business. The Stanford Research Institute defines stakeholders as "those groups without whose support the organization would cease to exist." Stakeholders can affect or be affected by the actions (or inactions) of a business, and they can exist both within and outside of a business.

The impact of a business on its stakeholders is a bit like the effect of dropping a stone into a pond. The decisions and actions of the business have a ripple effect that can extend beyond the pond and even reach those who are standing far away on the shore.

Internal Stakeholders

Internal stakeholders are groups or people who work directly within the business, such as managers, employees, and owners. Managers and employees want to earn high wages and keep their jobs, so they have a vested interest in the financial health and success of the business. Owners want to maximize the profit the business makes as compensation for the risks they take in owning or running a business.



Internal and External Stakeholders

The figure shows the typical stakeholders of a company. The stakeholders are divided into internal and external stakeholders.

External Stakeholders

External stakeholders are groups outside a business or people who don't work inside the business but are affected in some way by the decisions and actions of the business. Examples of external stakeholders are customers, suppliers, creditors, the local community, society, and the government. **Customers** want the business to produce quality products at reasonable prices. **Shareholders** have an interest in business operations since they are counting on the business to remain profitable and provide a return on their investment. **Creditors** that supply financial capital, raw materials, and services to the business want to be paid on time and in full. **Federal, state, and local governments** need businesses to thrive in order to pay taxes that support government services such as education, police, and fire protection. The **local community** has a stake in the business because it provides jobs, that generate economic activity within the community. **Society** as a whole (as well as the local community) is concerned about the impact that business operations have on the environment in terms of noise, air, and water pollution. Society also has an interest in the business with regard to the safety of the goods and services produced by the business. **Suppliers** need the business to continue to buy their products in order to maintain their own profitability and long-term financial health.

Check Your Knowledge

Answer the following questions to see how well you understand the topics covered in this chapter. This short quiz does not count toward your grade in the class, and you can retake it as many times as you wish.

Use this quiz to decide whether to study the chapter further or move on.

Choose the **BEST** answer.

Question 1

________ are people who work directly within the business.

- external stakeholders
- internal stakeholders
- shareholders

Question 2

Which of the following are external stakeholders in a business?

- employees
- creditors
- owners

Question 3

When a company decides it will cut vacation time and increase production hours, which stakeholders will be most directly impacted?

- industry associations
- employees
- competitors

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External Forces

What you'll learn to do: Identify the external forces that shape the business environment

You are probably aware that businesses do not operate in a vacuum, immune to the forces that shape our everyday life. Just like people, businesses interact with their surroundings, and just like people, businesses react differently to their environment. Later in the course, you will explore these external forces in greater depth when you complete chapters covering topics such as the global business environment, business ethics, and marketing. For the time being, this section will introduce the external forces that have an impact on business operations and decisions, and serve as a foundation for things to come.

Learning Outcomes

- List the external forces that affect businesses
- Give examples of how various external forces affect the participants in a business and its functional areas

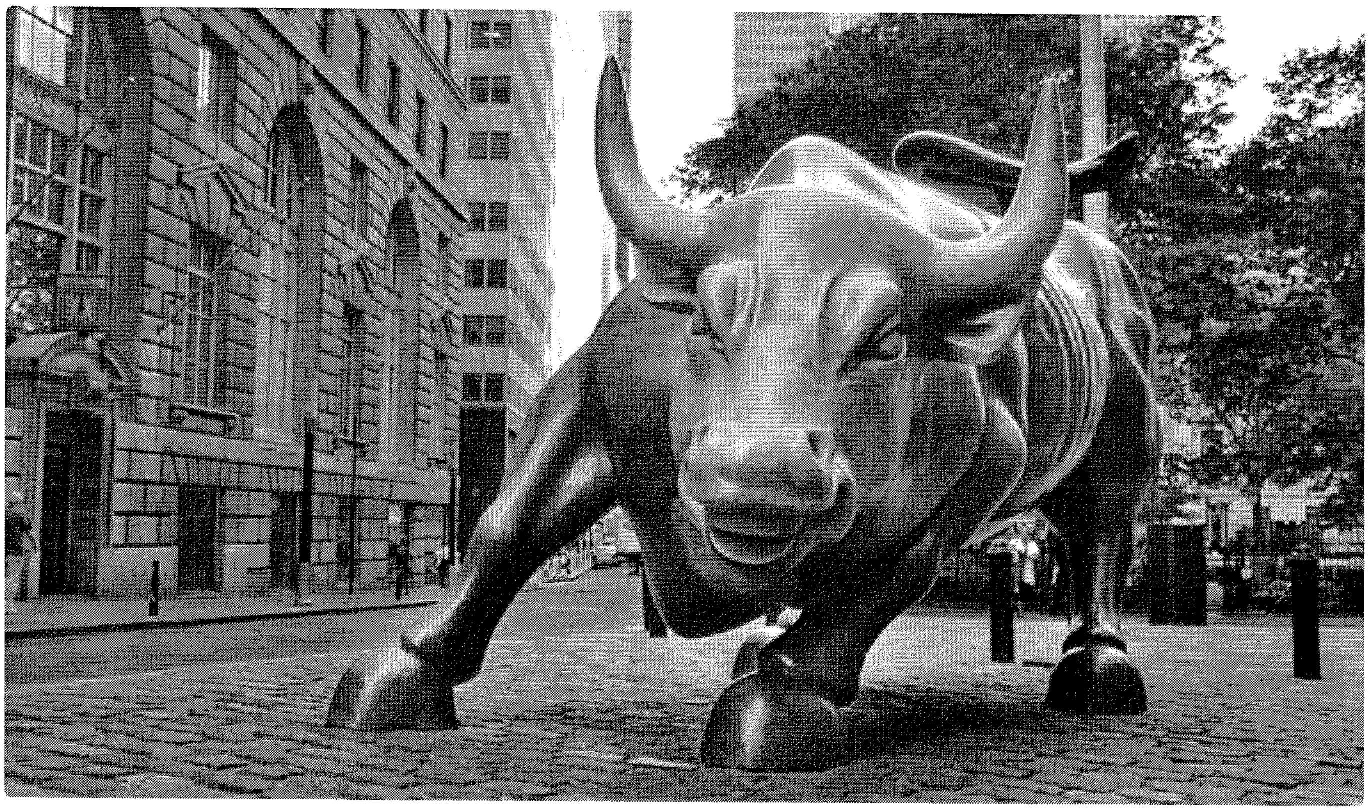
External Forces That Shape Business Activities

Businesses do not operate in a vacuum, and they are influenced by forces beyond their control. How they respond—and how quickly they respond—to these external forces can make the difference between success and failure, especially in today's fast-paced business climate. We can organize the external forces that affect business into the following six categories:

1. Economic environment
2. Legal environment

3. Competitive environment
4. Technological environment
5. Social environment
6. Global environment

Businesses operate in all of these environments simultaneously, and factors in one environment can affect or complicate factors in another.



Economic Environment

The economic environment of business has changed dramatically in recent years. After decades of growth and dominance, the U.S. economy is now challenged by the developing economies of other nations, which are jockeying to be number one. Since the financial crisis in 2008, the U.S. economy and businesses have struggled to recover from the greatest economic crisis since the Great Depression. Long-established companies have closed their doors, costing workers their jobs, retirement savings, and even their homes. Thus far the U.S. economy has proven resilient, and since the Great Recession, progress has been made to stabilize the housing industry, maintain low and affordable interest rates, and provide additional incentives for businesses to open and/or expand. These economic events have all had a direct impact on businesses, regardless of size.

Legal Environment

The legal environment of business is by far the most complex and potentially dangerous external factor a business faces. There is a minefield of regulations, laws, and liabilities that companies must cope with to stay in business—just turn on the TV or listen to the news. Volkswagen teeters on the brink of ruin because it falsified data about its cars' emissions. Tide is airing commercials not to promote the marvels of its laundry detergent but to warn parents to keep the Tide pods away from children, who may be tempted to eat them. These days it takes five minutes and a sharp instrument to open a bottle of Tylenol—the result of Johnson & Johnson's move in 1982 to make the product more difficult to open after a tampering incident in 1982 caused a spate of deaths and illness. Legal developments in our culture at large—for instance, the legalization of marijuana and same-sex marriage or the strengthening of privacy laws—can and do have an enormous impact on the way companies do business, on everything from what companies sell to how their products are manufactured, labeled, and marketed.

Competitive Environment

How do businesses stay competitive and still maintain a level of profitability that allows them to be successful? The competitive environment has intensified with the development of new technologies, the opening up of foreign markets, and the rise of consumer expectations. The local hardware store now finds itself competing with "big box" stores such as Lowe's and Home Depot. These larger stores have enough clout with suppliers that they can often sell a product to the consumer for less than an independent store can purchase it. Customers of these large chains can order online, get their items the same day, and receive loyalty rewards, free delivery, customization, and even service and installation. Staying competitive is a challenge for every business, and business owners are finding that benefits such as customer service, employee knowledge, and high quality can help them survive.

Technological Environment

Almost daily, businesses are driven to rethink the business technology they use to reach customers, produce their products, and provide their services. When we refer to **business technology** we mean digital tools such as computers, telecommunications, and the internet. The expansion of internet access to virtually every corner of the world has forced many traditional brick-and-mortar businesses into **e-commerce** or online sales. The advantage to businesses is that their customers no longer have to live near stores to purchase goods and services. Consumers can conveniently shop for products and services without leaving their home, their desk, or phone. The disadvantage to businesses is that consumers are also able to compare competitors' prices, benefits, features, and services (which shows how one environment—technology, can affect another—the competitive environment). Today's businesses have to be vigilant about spotting emerging trends not only in technology but also in the way consumers use it.

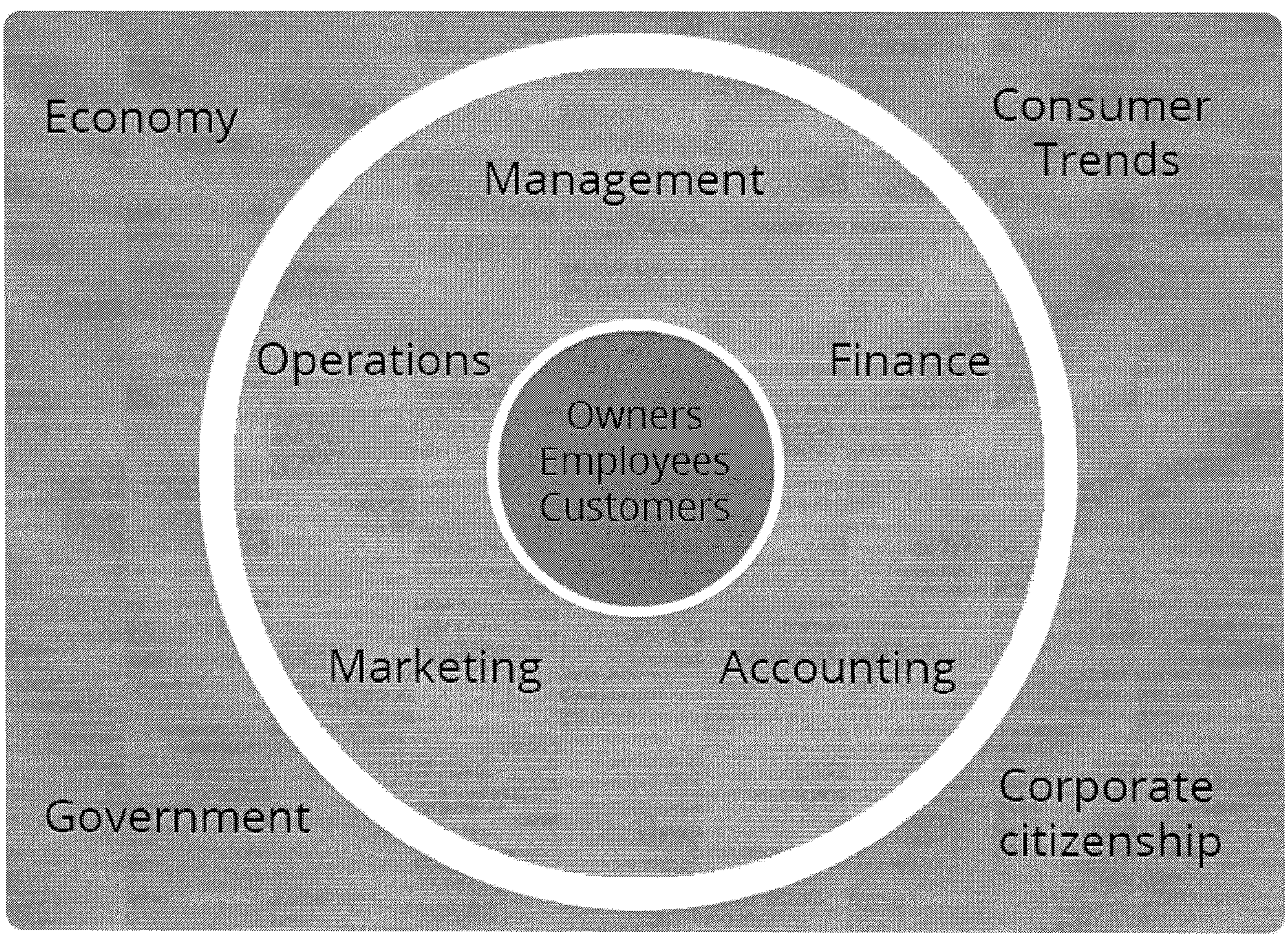
Animal Rights Protest

Social Environment

The social environment of business encompasses the values, attitudes, beliefs, wants, and desires of the consuming public. The **demographics** that describe the American population by gender, age, ethnicity, location, occupation, education and income are constantly evolving. The American population is steadily becoming more ethnically diverse: The US Census Bureau estimates that the Hispanic and Asian populations in the United States will double by 2050. At the same time, America is aging, and with the current median age above 36, it will not be long before a majority of Americans are ready to retire. In addition to ethnic diversity and age, the social environment brings forces such as **Corporate Social Responsibility (CSR)**, which means that more and more consumers are demanding that businesses be "good corporate citizens" by supporting charitable causes and contributing to local communities, adhering to ethical standards in their treatment of workers and others, and adopting environmentally responsible practices. Combine these factors with the whirlwind of changing fads, trends, and "hot topics," and you have some idea of why the social environment can present the greatest challenge to business.

Global Environment

From a business perspective, it is a small world, and it's only getting smaller. **Free trade** among nations has allowed goods and services to flow across international borders more efficiently and cheaply. Formal trade agreements among nations have forged unprecedented links and interdependencies among economies. Look at the items on your desk, and you may see items from China, Mexico, Canada, or Japan. It's possible that you drive a car that was made in the United States but was produced in a plant owned by a Japanese company. The growth of the Chinese economy has brought a flood of affordable goods into the United States and, along with those cheaper prices, created a reliance on foreign goods and materials. Now, when the Chinese economy slows down, the US economy is affected. When the price of foreign oil increases or decreases, businesses in the United States feel the impact. So, it's not just the local economy or even the national economy that businesses must track—they must also keep an eye on the world economy in order to anticipate and adapt to changes that will impact their products and services.



The Business Environment

Check Your Knowledge

Answer the following questions to see how well you understand the topics covered in this chapter. This short quiz does not count toward your grade in the class, and you can retake it as many times as you wish.

Use this quiz to decide whether to study the chapter further or move on.

Choose the **BEST** answer.

Question 1

If a company adjusts its processes to offer good service and high-quality products at competitive prices, they are responding to which external force?

- the competitive environment
- the economic environment
- the technological environment

Question 2

Sasha, a business manager, must consider many external factors that could affect her business. As she considers the low cost of labor in other countries around the globe when making business decisions, Sasha is considering ________.

- the technological business environment
- the social business environment

the global business environment

Question 3

What type of environment impacts a business if low interest rates and government incentives are offered to open or expand businesses?

- the technological environment
- the social environment
- the economic environment

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Putting It Together: Role of Business

Synthesis

Now that you have been exposed to some of the terms and definitions we use in business, have you been able to find something that doesn't have a link back to business? Let's go back to where we started (in "Role of Business: Why It Matters").

If you were in your living room, then everything in your surroundings was most likely manufactured by a business for your use—chairs, television, computer, pens, pencils.

What if you had been at the coffee shop? Well, this one is easy because you were doing your studying in a business, surrounded by people working for a business who were serving the customers of the business.

The last possibility we suggested was the beach. Well, the ocean doesn't have anything to do with business, does it? Remember in the chapter we talked about nonprofit organizations as business entities. Aren't there organizations that use their profits to support clean water and preservation of the coastline? What about the lifeguards at the beach who are paid by a business to keep swimmers safe? Where did the children get the shovels and pails they were using to play in the sand?

By this time you should begin to see that even though you may not think of business as you go about your daily routine, it is always there, like the air we breathe. Throughout this text you will learn about how businesses operate, why they engage in the activities they do, and numerous other components that go into this thing we call "business."

In the meantime, don't stop looking for something that qualifies as "non-business related"—you might find something after all.

Summary

This chapter covered the role of business. Below is a summary of the topics covered in this chapter.

What Is Business?

We defined **business** as any kind of organization or action that creates goods or provides services. While this is usually undertaken with making a profit as the main goal, this isn't always the case.

For-Profit vs. Non-Profit

For-profit businesses focus on earning a profit. They are concerned with the company's well-being and success above all else. **Nonprofit organizations** (NPOs), on the other hand, are more goal-oriented. They are concerned with communities or members. Instead of focusing on earning money, NPOs focus on their customers and their needs (e.g., credit unions, sports clubs, human service programs, aid and development programs).

Factors of Production

In order to produce services or goods, a business needs four resources: land (or other natural resources), labor, capital, and entrepreneurship. **Natural resources** are defined as resources found in nature unaltered by man; these include oil, wind, trees, and so on. **Labor** can be divided into two general categories: physical labor and mental labor. Both kinds of work are necessary for success. **Capital** includes things created by human beings that are used to make other goods: power tools, computers, and even art (which can be used to create museums or art shows). Money is not considered to be capital. An **entrepreneur** is the person who starts the company or business—without him or her, the business would not exist.

Functional Areas

Businesses are made up of functional areas—different activities that need to be done to maintain the business. These include management, operations, marketing, accounting, and finance. **Management** ensures employees are on task and that each employee is being leveraged in the way that makes the business most efficient. **Operations** watches over production and ensures quality of product. Marketing brings in customers, both by making the business look appealing to customers, and by taking customer feedback and improving the business. **Accounting** keeps track of the money currently coming in and the money currently being spent. **Finance** plans for future expenses and income.

Stakeholders

There are two kinds of stakeholders (individuals who have a vested interest in a company): internal stakeholders and external stakeholders. **Internal stakeholders** include employees, managers, and owners. These individuals are vested in the company because they directly depend on it for income. **External stakeholders** include customers, shareholders, creditors, suppliers, and others. These people have a legitimate interest in the company for various reasons and can all be affected by actions the business takes.

External Forces

A business is not just influenced by itself—everything in the world around it can impact a business. A business may create a fun new toy, but if the economy is suffering and consumers aren't buying a lot of things they do not need, the business most likely won't succeed. Business can be affected by the economy, consumer trends, government regulations, and many other things.

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