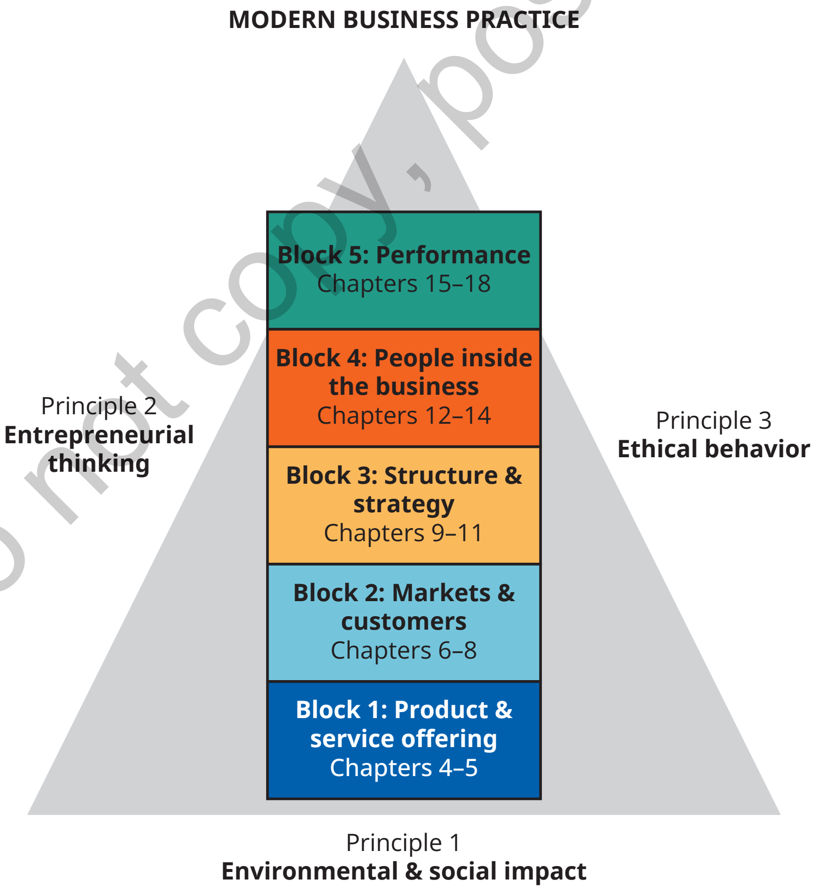
Preface

An understanding of the fundamentals of modern business is critical for *everyone*—whether you are a CEO, an artist, an entrepreneur, an entry-level employee, a musician, an engineer, anyone who has a desire to offer something of value to the world. This text does not target only "traditional" business students but all students because we believe knowledge of modern business principles can be the difference between long-term success and failure for all majors—not just business majors. Additionally, we celebrate various types of business owners from all around the world to demonstrate that global is local and local is also global. We also emphasize that participation in business should be accessible to all, that is, anyone from any gender, race, nationality, or sexual orientation. Celebrations of diversity are found throughout the text, evidence that the modern business world is more accessible than ever before, yet acknowledging that constraints, challenges, and biases continue to exist. Overall, we strike a balance between theory and practice. We believe the content of the text reflects the reality of business today and prepares students for their current reality and future possibilities as they get ready for future careers—careers that perhaps don't even exist yet.

Introduction to Business: For a Sustainable and Entrepreneurial Future, Second Edition, is grounded in five essential building blocks of business and three core principles that shape the foundation of modern business practices (Figure I.1). This book is for students who want to learn about today's business world and how to thrive within it.

Figure I.1 ▪ Foundations of Modern Business Practices



In today's fast-moving, tech-driven world, businesses need a strong foundation to succeed. These building blocks and core principles help companies grow in smart ways—making a profit while also making a positive impact on people, communities, and the planet.

Five Building Blocks of Business

Learning about business today takes more than just reading and memorizing—it's about doing, thinking, and connecting the dots. This book uses business building blocks (Figure I.1) to show how a business really works as a whole, not just as separate subjects like marketing, operations, accounting, or finance. These business building blocks help students understand how all the parts of a company fit together and how decisions in one area affect others.

- **Block 1, Product and Service Offering,** highlights everything a company provides, whether products, services, or a mix, to meet customer needs or solve a problem, along with how the company creates, delivers, and generates revenue from these offerings.
- **Block 2, Markets and Customers,** emphasizes the importance of modern sales and marketing approaches, and how businesses identify and sell to customers in target markets.
- **Block 3, Structure and Strategy,** describes how organizations determine their structure to manage workflow, build a culture that supports their overall mission, and develop strategies to outperform the competition.
- **Block 4, People Inside the Business,** explores the human side of companies, focusing on leaders and managers, human resources, team and individual performance, career management, and effective communication.
- **Block 5, Performance,** measures how effectively a business operates—making and selling products or services, streamlining the supply chain, managing finances, tracking results, and leveraging business analytics for smarter decisions.

The explosion and widespread acceptance of generative artificial intelligence is integrated into discussions across the blocks, highlighting its growing relevance and impact within each area of business and reinforcing its role as a transformative force in today's business landscape.

Three Principles Shaping Modern Business

In this text, a *business* is defined as an organization that is engaged in commercial, industrial, or professional activities that produce and/or sell goods or services for the creation of economic *and* social value. *Economic value* relates to the profitability of the business and its ability to generate revenue, pay expenses, and generate positive net income. *Social value* encompasses the positive impact a business can have in solving social and environmental challenges. Achieving economic and social value requires balancing profit and purpose. Throughout the text, students are encouraged to do good, create boldly, and act with integrity. To help you understand how modern businesses work and what makes them successful today, this book is built around three important principles. These principles will show you how companies can make a profit, help people and the planet, think in creative ways, and make ethical choices.

Principle 1: Environmental and Social Impact

Environmental and social impact (doing good) is about creating positive, meaningful change in the world—balancing profit and purposes. Many of today's most successful companies care about more than just making money. They also focus on helping people and protecting the planet because they understand that profit, people, and the planet are all connected. Underpinning this principle is the role businesses have in achieving the United Nations (UN) Sustainable Development Goals (SDGs). The 17 SDGs, adopted by 193 nations, are a blueprint for achieving a thriving, inclusive, and sustainable society (Figure I.2). Meeting these goals is not just the right thing to do from a social or environmental perspective. Economically, the goals represent $12 trillion in business opportunities as well as creating 380 million jobs worldwide.[1] Experts suggest that the greatest impact will be derived from four areas: food and agriculture, cities, energy and materials, and health and well-being.[2]

Figure I.2 ▪ The UN's Sustainable Development Goals

Source: United Nations. (2024). *Sustainable Development Goals*. United Nations Sustainable Development; United Nations. https://www.un.org/sustainabledevelopment/sustainable-development-goals/. The content of this publication has not been approved by the United Nations and does not reflect the views of the United Nations or its officials or member states.

We highlight how businesses positively impact the world by drawing attention to and solving complex social and environmental problems while also making an economic profit. To this end, each chapter includes three cases that connect to one or more of the 17 SDGs:

- **Business Impact Case:** A short description of a real business opens each chapter. Each case connects to the content of the chapter and highlights how the company is working on one or more of the SDGs. Each case is followed by critical thinking questions.
- **End-of-Chapter Business Case Studies:** Two case studies, longer in length and real companies, are at the end of each chapter. These cases connect to the content of the chapter and highlight how the companies are working toward particular SDGs. Given the length, these cases go into greater detail, allowing for more in-depth discussion and reflection on the end-of-case critical thinking questions.

Using the SDGs as a guiding framework for case selection is done with intention based on student interest and the priorities of many successful businesses today. Companies, through a focus on the SDGs, are operating in more humane and sustainable ways to drive positive change and protect people and the planet we inhabit. Students want to work in and build these companies. Seventy percent of Generation Z want their core values, especially values connected to social activism, to align with the values of the organization where they work.[3]

Principle 2: Entrepreneurial Thinking

Entrepreneurial thinking (creating boldly) refers to our ability to create boldly, bringing new ideas to life without fear and being courageous enough to try something different, even if it hasn't been done before. It helps us to recognize and act on opportunities, make decisions even with limited information, and stay adaptable and resilient in uncertain and challenging situations. It's not about being an entrepreneur but rather thinking like one. Not every student learning business should be an entrepreneur, but every student should be entrepreneurial, regardless of their career aspirations.

Entrepreneurial thinking is introduced as a combination of effectual reasoning, understanding and managing fear of failure, developing grit, and building personal resilience. Students are introduced to seven elements of effectual reasoning: Start with what you have; control, don't predict; take smart risks; work with others; stay flexible; be resourceful; and turn problems into opportunities. *Fear of failure* is normal, and students are encouraged to use failure as a learning opportunity and manage through the fear. The uncertainty and fear of failure encountered can be managed through resilience and grit. *Resilience* is the ability to recover, move forward, or bounce back after something difficult happens. *Grit*, on the other hand, is about sticking with something over a long period of time, even when it's hard or progress is slow. When someone faces failure or uncertainty, resilience helps them get back on their feet. Grit helps them stay on the path in the first place.

Again, entrepreneurial thinking is not about being an entrepreneur; it's about thinking like one. Those who can embrace uncertainty, navigate ambiguity, and create value under such conditions are the change makers who are redefining what being an entrepreneur looks like. However, up to 50% of Gen Z aspires to have their own business one day; they are quickly becoming disheartened with traditional work, wanting more flexibility and a deep desire to make an impact. As a result, the text includes examples of all kinds of entrepreneurs, managers, and leaders thinking entrepreneurially. Additionally, each chapter has a feature called **Entrepreneurial Thinking Activity** that requires students to leave the textbook and do something—to take entrepreneurial action. These activities are designed to help students develop their own ability to think and act entrepreneurially.

Principle 3: Ethical Behavior

Because business is so global and diverse, companies often face tough ethical choices. These situations show how complex decisions can be and how they affect different people and parts of a business. *Ethical behavior* (acting with integrity) prioritizes moral principles and values in decision-making and behavior. It is about acting in ways that are fair, just, and respectful of others. Businesses, and the people who operate them, that consistently act ethically build trust with their stakeholders, which is essential for long-term success and positive impact. Individuals acting ethically and with integrity do not just follow the rules; they think carefully about how their actions affect others and strive to do what's morally right, even when it's hard.

We believe students inherently know the difference between right and wrong. The difficulty of an ethical dilemma lies in the gray areas where the path forward isn't obvious, where there could be multiple paths, or where rationalization could make an unethical decision feel ethical. The adage "it's just business" doesn't make sense. The person making a decision cannot be separated from the context of the decision. Decisions are a reflection of who we are as people.

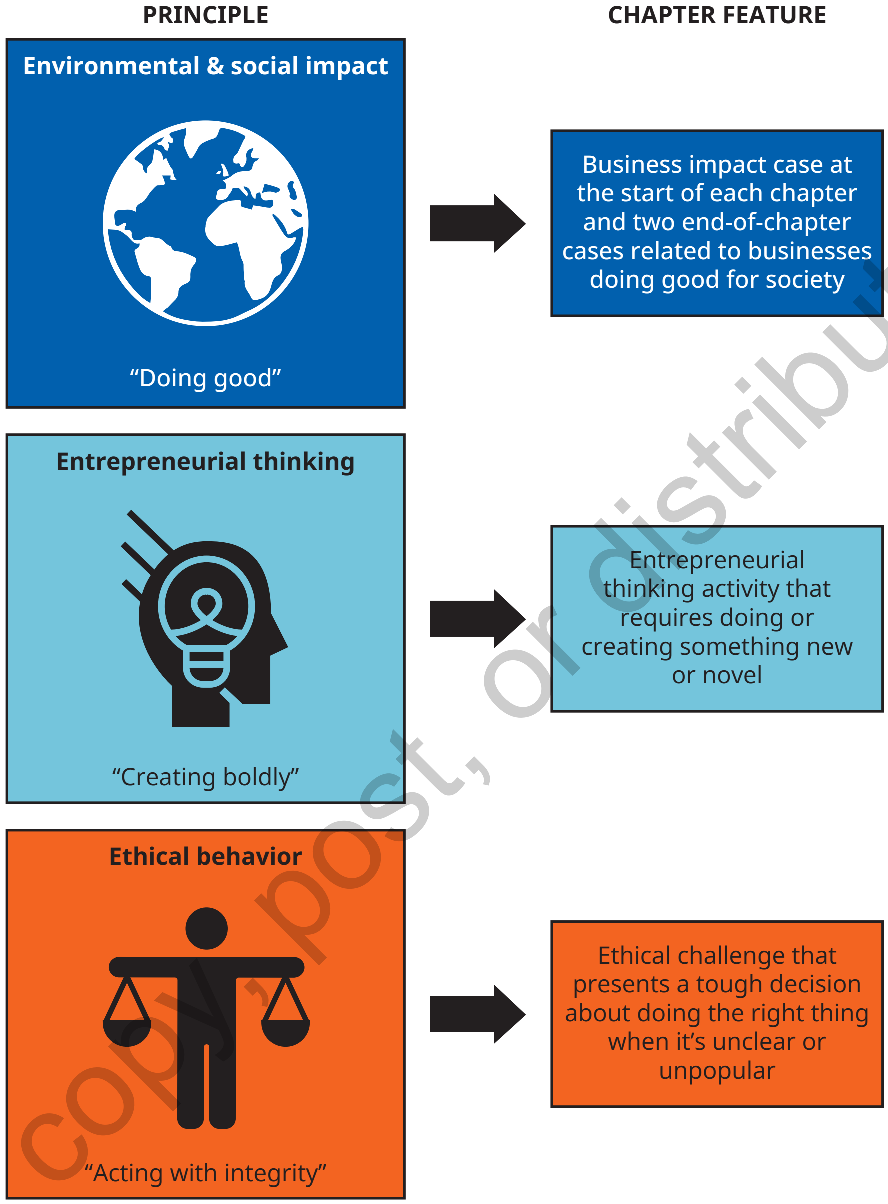
Each chapter has a feature called an **Ethical Challenge** where students see and feel that ethics is not just a definition to learn, but rather a practice that empowers them to address ethical dilemmas, attack injustice, critically evaluate options, and discuss consequences of different decision paths. In each Ethical Challenge, students face real-life gray areas where there isn't always a clear right answer—and will get to decide what they think is the best choice. To help think through these situations, we introduce four well-known frameworks to approach ethical decisions: utilitarian (focused on outcomes), deontological (duty-based), virtue ethics (based on character), and distributive justice (focused on fairness). The student will learn about each one in Chapter 2 and then apply them throughout the text (see Table I.1). By using each framework multiple times, the student will get to see which ones make the most sense to them and how they shape their own decision-making style.

In short, the three core principles—environmental and social impact, entrepreneurial thinking, and ethical behavior—are here to help prepare the student for today's business world. Each chapter brings these principles to life through three key features (see Figure I.3): real-world case studies tied to the SDGs, hands-on entrepreneurial activities, and ethical decision-making challenges. These features help the student not just understand the concepts but also apply them in practical ways that match what modern businesses care about and what matters to students, too.

Table I.1 ▪ Ethical Decision-Making Frameworks

Ethical Framework	Guiding Questions
Utilitarianism	What action provides the greatest good to the most people? What action produces the least harm to the fewest people?
Deontological	Do I want my action to be allowed by everyone without consequence?
Virtue	Is this action supporting the type of person I want to be? Do my actions demonstrate good character traits, or virtues, like kindness, honesty, fairness, courage, compassion, justice, and generosity? Is this action supporting the type of person I want to be?
Distributive justice	What is fair in this scenario? Do my actions promote equality? Do my actions promote equity?

Figure I.3 ■ How the Principles Show Up in Each Chapter



Chapter Content and the Business Impact Project

Chapter 1, "The Business of Business," introduces the definition of business and its role in creating both economic and social value, covers key microeconomic principles that guide business decision-making, explores the five building blocks of modern business, explains how businesses balance profit and purpose through three foundational principles, and examines emerging trends shaping the future of work.

Chapter 2, "Business Impact, Entrepreneurship, and Ethics," distinguishes between the growth and fixed mindset and demonstrates the role of a growth mindset in business; explains the role of business in creating positive, meaningful change in the world; connects effectual reasoning, tolerance for failure, grit, and resiliency to entrepreneurial thinking; and explores four decision-making frameworks to navigate ethical challenges across business functions.

Chapter 3, "Business Without Borders," explores the globalization of business and the key economic indicators that impact decision-making; examines legal, regulatory, and trade issues in different countries; evaluates multinational corporations and their influence in global markets; assesses the role of macroeconomics on a global level; addresses cross-cultural challenges; and introduces different models to build cultural awareness in global business settings.

Chapter 4, "Business Creation," introduces the reality of modern entrepreneurship, explores multiple pathways to engage in entrepreneurship, introduces two structured approaches to idea generation—the Four Pathways and the IDEATE method—and explains how each is used to develop and refine business ideas, and focuses on classifying and gathering evidence to identify viable business ideas.

Chapter 5, "Business Models," describes the four main parts of a business model and how each contributes to creating, delivering, and capturing value; examines the most common types of business models used today; introduces the Business Model Canvas as a planning tool; and explores how disruptive business models can significantly impact people and industries.

Chapter 6, "Marketing," defines marketing and introduces the marketing mix—product, promotion, price, and place—as the foundation for building customer value, explores the fundamentals of digital marketing, examines the impact of content marketing on customer engagement, explores the role of social media influencers in modern marketing, and analyzes how data is used to make more effective marketing decisions.

Chapter 7, "Customers and Market Segments," examines the difference between customers and consumers, markets and market segments, and the different types of customers; highlights the importance of understanding consumer behavior in making purchasing decisions; introduces the key steps of the buying process; and explores different methods of market segmentation to help businesses better reach their target customers.

Chapter 8, "Sales," describes the role of sales in modern business and its close connection to marketing, introduces the seven stages of the sales cycle from finding potential customers to closing a deal, discusses common selling techniques used by professional salespeople, and explores the different types of tools that make selling more efficient, streamline the sales process, and boost revenue.

Chapter 9, "Organizational Structure," explains how a company's structure impacts its overall performance, explores the features of traditional organizational models, describes how evolving business environments have prompted the rise of contemporary structures, and identifies key factors that influence how organizations design their structures to adapt and thrive.

Chapter 10, "Organizational Culture," defines what culture is and explores its impact on organizations; describes the role of mission, vision, and values and explains their importance to a company; differentiates among the types of organizational culture; highlights the importance of employee fit; and identifies and interprets clues to an organization's underlying culture.

Chapter 11, "Business Strategy for Competitive Advantage," examines how strategy influences company performance and long-term success, introduces key strategic tools for analyzing a company's competitive environment, compares common frameworks businesses use to create competitive advantage, explores core strategies for growth, describes how businesses manage disruption and uncertainty, and outlines the pros and cons of strategic planning.

Chapter 12, "Management and Leadership," covers the four functions of management—planning, organizing, leading, and controlling—and the skills required for each, identifies the 10 key managerial roles and explores various management styles, distinguishes leadership from management, explains how effective leaders use motivation to guide behavior and improve performance, explores emotional intelligence, and compares EQ to IQ.

Chapter 13, "Human Resources," explores HR's role in shaping company culture; outlines the recruitment, onboarding, training, and career development processes; discusses the role of performance management; compares direct and indirect forms of employee compensation; and highlights how employees can actively manage their own performance and career growth by showcasing their skills.

Chapter 14, "Communication," defines communication and explains the communication process, describes the different forms of communication, identifies barriers to effective communication and provides strategies to overcome them, explores different listening styles and explains how ineffective listening can hinder understanding, explains the three directions of communication, and introduces Monroe's Motivated Sequence for creating persuasive messages, with applications in real-world scenarios.

Chapter 15, "Operations, Production, and the Supply Chain," defines business operations and explains how they connect to other key business functions, outlines the end-to-end process of creating goods or services, identifies the three core components of supply chain management, explores how service-based businesses focus on operations that enhance the customer experience, and compares different approaches to improving operations.

Chapter 16, "Accounting and Financial Statements," defines accounting and explains the types of accounting information; describes the purpose and components of the three major financial statements—income statement, balance sheet, and cash flow statement—and shows how they are interconnected; and introduces key financial ratios to evaluate a company's overall financial health.

Chapter 17, "Financial Management," defines financial management and explains its role in supporting a company's financial health and strategic goals, focuses on key aspects of financial planning, including budgeting and forecasting; explains equity financing and identifies various stages of financing, describes debt financing by describing common types of business loans and the basics of repayment; and outlines the differences between the three types of internal financial controls used to prevent fraud.

Chapter 18, "Data, Systems and Business Analytics," defines business analytics and explains the differences between big data and small data and identifies common data sources; describes the business analytics cycle; differentiates between the five main types of business analytics; explains the most pressing challenges companies face in implementing analytics effectively; and explores the ethical and privacy responsibilities associated with collecting, storing, analyzing, and using data.

Together, these chapters lead students to the successful completion of the final business impact project. The *business impact project* encourages students to put their knowledge into action and better understand and connect with a business that they are curious about, admire, want potentially to work for, already work for, want to create, or perhaps they are super fans of its products. Regardless of the business they choose for the project, the business must connect to one or more of the SDGs. The project's outcome is a *business impact deck*, which is a PowerPoint (or equivalent) presentation that depicts the five building blocks of the company chosen, its impact related to the SDGs, and two to four potential entrepreneurial opportunities that the company could pursue in the future. These opportunities are uncovered as the student (or student group) researches the five building blocks and learns more about the company, the industry in which it competes, and the customers it currently serves and could serve in the future. These opportunities could be new products, services, processes related to how work is done, new initiatives inside the company, or new projects to benefit the community served by the company. Through the project, students see how the business building blocks fit together for one company and the resulting impact of the blocks working together as a whole rather than distinct components or pieces.

New to This Edition

The second edition has been retooled around three core principles shaping modern business: environmental and social impact, entrepreneurial thinking, and ethical behavior. Students are encouraged to do good, create boldly, and act with integrity. New and updated case studies throughout the book—three in each chapter—introduce students to a range of innovative businesses tackling complex social and environmental problems while also turning a profit. New Chapter 2, "Business Impact, Entrepreneurship, and Ethics," demonstrates the role of the growth mindset in business, explains the role of business in creating meaningful change in the world, and explores frameworks to navigate ethical challenges across business functions. Chapter 6, "Marketing," and a new Chapter 8, "Sales," now cover these two key functions in distinct chapters. Extended coverage of core economics concepts in Chapter 1, Chapter 3, and a new dedicated appendix introduces students to the foundations of microeconomics and macroeconomics. The explosion and widespread acceptance of generative artificial intelligence are integrated into discussions across the book, highlighting its growing relevance and impact within each area of business. More details on what's new in each chapter follow.

Chapter 1: The Business of Business

- Updated Business Impact Case: Patagonia
- Revised chapter introduction detailing the future of work in a post-COVID world
- New sections describing small businesses, micro businesses, cooperatives, and medium-sized businesses
- New learning objective defining the economic principles used in decision-making, including discussion of microeconomics and macroeconomics
- New learning objective explaining how businesses balance profit and purpose through three foundational principles: environment and social impact, entrepreneurial thinking, and ethical behavior
- More discussion on AI as a key trend shaping the future of work
- Expanded discussion on core skills needed for future jobs
- New Ethical Challenge: Advertising in an Eco-Friendly Startup
- New Entrepreneurial Thinking Activity: Exploring Responsibilities in Different Business Types
- New Business Case Study 1.1: The Wonderful Company
- New Business Case Study 1.2: Lijjat Papad

Chapter 2: Business Impact, Entrepreneurship, and Ethics

- New Business Impact Case: Rebelstork
- Expanded discussion of fixed and growth mindsets, showing how a growth mindset helps to implement the three principles: environment and social impact, entrepreneurial thinking, and ethical behavior
- New section on circular economy
- New discussion of environmental, social, and governance (ESG) framework
- New learning objective connecting effectual reasoning, tolerance for failure, grit, and resiliency to entrepreneurial thinking

- New section on building and developing resilience
- New learning objective exploring four decision-making frameworks—utilitarianism, deontological, virtue, and distributive justice—to navigate ethical challenges across major business functions
- New Ethical Challenge: Navigating AI in Business
- New Entrepreneurial Thinking Activity: Supporting the UN Sustainable Development Goals Through Consumer Choices
- New Business Case Study 2.1: ASML
- New Business Case Study 2.2: Calm

Chapter 3: Business Without Borders

- New Business Impact Case: Nike
- New discussion of macroeconomic indicators of economic growth or decline, including sections on gross domestic product, inflation, interest rates, and exchange rate
- Deeper exploration of legal and regulatory environments in different parts of the world
- New section discussing multinational companies (MNCs) and the SDGs, including the challenges posed by greenwashing
- New addition of Molinsky's six-dimension framework for global dexterity, for building cultural awareness
- New Ethical Challenge: Suppliers in a Developing Country
- New Entrepreneurial Thinking Activity: Simulating Global Trade
- Updated Business Case 3.1: Reel
- New Business Case 3.2: Unilever

Chapter 4: Business Creation

- Updated Business Impact Case: MassChallenge
- Greater exploration of the Global Entrepreneurship Monitor (GEM) studies with new findings
- Revised discussion of the six truths of entrepreneurship with new examples to illustrate each point
- Introduction of entrepreneurship through acquisition as a common type of entrepreneurship
- New section on the role of AI in idea generation
- New examples to illustrate the idea classification matrix
- New section on evidence-based entrepreneurship
- New Ethical Challenge: Compensation in a Growing Startup
- New Entrepreneurial Thinking Activity: Identifying Headache Problems
- New Business Case Study 4.1: Hill House Home
- New Business Case Study 4.2: Urban Cowboy Hotels

Chapter 5: Business Models

- New Business Impact Case: Misfits Market
- New addition of direct-to-consumer, franchising, platform, and data as types of business models
- Expanded discussion of the business model canvas (BMC) to illustrate how a business creates, delivers, and captures value
- Introduction of the "change a block" technique as a way to differentiate business models
- New section discussing key performance indicators (KPIs) and the BMC
- Greater exploration of business model disruption with a focus on generative AI as a major disruptor
- New Ethical Challenge: Disruptive Business Models
- New Entrepreneurial Thinking Activity: Create Your Own Business Model
- New Business Case Study 5.1: AptDeco
- New Business Case Study 5.2: Canva

Chapter 6: Marketing

- Updated Business Impact Case: 4Ocean
- Deeper exploration of pricing strategies illustrated by new examples
- New section on pay-per-click (PPC) advertising
- New learning objective on digital marketing, including social media marketing, omnichannel marketing, experiential marketing, personalization and AI-driven marketing, sustainable and ethical marketing, and community-based marketing
- New learning objective on content marketing, including social media content, infographic content, blog content, podcast content, video content, email content, and website content
- New learning objective exploring how social media influencers are redefining modern marketing
- New learning objective demonstrating how businesses use data to make more effective marketing decisions
- New Ethical Challenge: Guerrilla Marketing in Social Media
- New Entrepreneurial Thinking Activity: Leveraging Influencer Marketing
- New Business Case Study 6.1: Chipotle
- New Business Case Study 6.2: Amazon

Chapter 7: Customers and Market Segments

- New Business Impact Case: LEGO
- Expanded discussion of customers and markets supported by new examples and research
- New section on different types of buyers
- New section on sentiment analysis (also known as opinion mining) as a way for companies to gauge customer opinion

- New examples to support the five steps of the buying process
- New section on emerging trends in consumer behavior
- New Ethical Challenge: Market Segmentation and Inclusion
- New Entrepreneurial Thinking Activity: Uncovering Functional and Emotional Value
- New Business Case Study 7.1: Rare Beauty
- New Business Case Study 7.2: Costco

Chapter 8: Sales

- New Business Impact Case: Oura Ring
- New learning objective describing the role of sales and its relationship to marketing
- New section on modern sales, emphasizing a more customer-centric approach
- Expanded section on B2B and B2C selling to include direct-to-consumer businesses
- Greater discussion of the seven stages of a sales cycle, including customer profiles, BANT, rapport-building techniques, sales negotiation, and different types of closing techniques
- New addition of social selling as a sales technique
- New learning objective exploring common tools to make selling more efficient and increase revenue
- New section on three types of sales tools: sales automation, CRM systems and sales metrics, and sales promotions
- New Ethical Challenge: High-Pressure Sales Tactics
- New Business Case Study 8.1: Lemonade Insurance
- New Business Case Study 8.2: Toast

Chapter 9: Organizational Structure

- New Business Impact Case: Valve Corporation
- New section explaining organizational structure through the use of metaphor
- In-depth description of the five main types of executive officers
- Real-world examples added to explain centralization and decentralization
- Real-world examples added to illustrate traditional organizational structures
- Real-world examples added to highlight contemporary organizational structures
- New section on agile organizational structure
- New section on workflow and communication needs
- Enhanced explanation of the organizational life cycle
- New Ethical Challenge: Restructuring a Family-Owned Business
- New Business Case Study 9.1: Spotify
- New Business Case Study 9.2: Makai Ocean Engineering

Chapter 10: Organizational Culture

- New Business Impact Case: Goya Foods
- Expanded introduction on organizational culture supported by new examples and current research
- New section on culture and conformity supported by real-world examples
- Application of the three main components of a mission statement—contribution, emotion, and differentiation—with supporting examples
- More detailed discussion of vision and values
- New examples added to illustrate the types of organizational culture
- New section connecting other culture types to the competing values framework
- New section describing multiple cultures within a single company
- New section on sociocultural forces highlighting generational work characteristics
- New Ethical Challenge: Merging Company Cultures
- New Entrepreneurial Thinking Activity: Culture Detectives—Uncovering Workplace Clues
- New Business Case Study 10.1: Boeing Company
- New Business Case Study 10.2: Elsevier

Chapter 11: Business Strategy for Competitive Advantage

- New Business Impact Case: Liquid Death
- New section on tactics
- Expanded discussion of competitors to include direct, substitute, and indirect competitors
- New examples to illustrate Porter's Five Forces model
- Enhanced explanation of competitor analysis matrix supported by new examples
- New addition of the dynamic capabilities framework
- New addition of Blue Ocean Strategy
- New section on the Miles and Snow typology
- New section on agile strategy
- New learning objective on the industry life cycle curve and the five main growth strategies
- New addition of VUCA and the known–unknown matrix to describe how businesses manage key disruptors to strategy
- New addition of five internal challenges that may impact a company's ability to execute strategies
- New learning objective discussing the pros and cons of strategic planning
- New Ethical Challenge: Acquiring Competitive Intelligence
- New Business Case Study 11.1: Netflix
- New Business Case Study 11.2: Hilton Worldwide Holdings

Chapter 12: Management and Leadership

- Updated Business Impact Case: Little Cocoa Bean
- New examples explaining the four functions of management
- New addition of the five-step model of decision-making
- Enhanced description of leadership styles supported by new examples
- New learning objective analyzing how leaders use motivation to influence behavior, enhance performance, and achieve organizational goals
- Expanded discussion on intrinsic and extrinsic motivators
- New real-world examples to describe different types of leadership styles
- New learning objective exploring emotional intelligence (EQ) and comparing EQ to intelligence quotient (IQ)
- New Ethical Challenge: Managing Employee Morale
- New Entrepreneurial Thinking Activity: Learning to Lead Yourself by Thinking in Positive and Helpful Ways
- Updated Business Case Study 12.1: Akamae
- New Business Case Study 12.2: Advanced Micro Devices (AMD)

Chapter 13: Human Resources

- New Business Impact Case: HubSpot
- Expanded introduction to include contract and gig workers, artificial intelligence in recruitment, and a diverse workforce
- Greater discussion of recruitment methods, including information on staffing and recruiting agencies
- New section on employee development supported by examples and research
- New learning objective comparing direct and indirect forms of employee compensation
- New learning objective explaining how employees can demonstrate skills, align personal goals with company objectives, and proactively manage performance and career growth
- New Ethical Challenge: Distributive Justice and Fair Access to Employee Development
- New Entrepreneurial Thinking Activity: What's Worth It? Rethinking Compensation
- New Business Case Study 13.1: Hot Topic
- New Business Case Study 13.2: Delta Airlines

Chapter 14: Communication in Business

- New Business Impact Case: Ernst & Young
- New addition of different types of noise in the communication process
- Enhanced discussion of the different forms of communication with new examples and research
- New section on the common types of communication styles, including assertive communication, passive communication, passive-aggressive communication, and aggressive communication

- Expanded discussion on barriers to communication, including lack of clarity and context, information overload, hierarchy and power dynamics, and emotional and physical barriers
- New addition of the main types of listening styles
- New section on ineffective listening types
- New learning objective introducing Monroe's Motivated Sequence to create persuasive messages and apply them in real-world contexts
- New Ethical Challenge: Communication Transparency in Health Care
- New Entrepreneurial Thinking Activity: Organizational Telephone: How Messages Move (and Break)
- New Business Case Study 14.1: Starbucks
- Updated Business Case Study 14.2: Allbirds

Chapter 15: Operations, Production, and the Supply Chain

- New Business Impact Case: United Parcel Service (UPS)
- New section explaining how operations function in the most common types of businesses
- New addition of batch production and job production as different types of production methods
- New section on inventory, discussing just-in-time (JIT) inventory, and the primary types of inventory
- New section explaining the main types of capacity planning
- Expanded discussion of supply chain management, including new sections on sourcing and procurement, supplier relationships, and distribution
- New learning objective exploring how service-based businesses focus operations on delivering a positive customer experience (CX), with new examples and supporting research
- New section on the specific revolutionary technologies shaping the future of customer service
- New section on green (sustainable) operations
- New Ethical Challenge: Pressure to Cut Corners in the Supply Chain
- New Entrepreneurial Thinking Activity: Optimize Your Own Operations
- New Business Case Study 15.1: Toyota Motor Corporation
- New Business Case Study 15.2: M-Pesa

Chapter 16: Accounting and Financial Statements

- Updated Business Impact Case: Portfolia
- Deeper discussion of net income versus cash flow illustrated by a real-world example
- New section on cash conversion cycle
- New Ethical Challenge: Telling the Truth With Numbers
- New Business Case Study 16.1: Airbnb
- New Business Case Study 16.2: Lyft

Chapter 17: Financial Management

- New Business Impact Case: Grameen America
- Revised introduction illustrated with new examples
- New section describing the role of AI in budgeting and forecasting
- Enhanced discussion of the stages of equity financing, including equity funding resources
- New addition explaining how working capital needs can be supported through debt financing
- Expanded discussion of types of business loans supported by new examples
- New Ethical Challenge: Financial Trouble in Minor League Baseball
- New Entrepreneurial Thinking Activity: Business Budgeting Turns Personal
- New Business Case Study 17.1: Duolingo
- New Business Case Study 17.2: Bayer AG

Chapter 18: Data, Systems, and Business Analytics

- New Business Impact Case: Lyra Health
- Revised introduction discussing data-driven decision-making (DDDM), data literacy, and business intelligence
- New discussion of the role machine learning plays in big data
- New section describing the role of AI in budgeting and forecasting
- Enhanced discussion of the stages of equity financing, including equity funding resources
- New section on the internal and external sources of data
- New learning objective describing the business analytics cycle, supported by new examples
- Expanded discussion of the main types of business analytics with new examples
- New addition of cognitive analytics as a type of business analytics
- Expanded discussion of types of business loans supported by new examples
- New business analytics challenges: lack of skills, data storage, and too many data sources
- New learning objective examining the ethical and privacy responsibilities involved in collecting, storing, analyzing, and using data in business analytics
- New Ethical Challenge: Overpersonalization in Fashion Analytics
- New Entrepreneurial Thinking Activity: Visualize Your Life From Data
- New Business Case Study 18.1: BenevolentAI
- New Business Case Study 18.2: Avangrid, Inc.

AACSB Standards

This book has been written to demonstrate the guiding principles and standards for business accreditation from AACSB, the Association to Advance Collegiate Schools of Business. Throughout this book, you will find several opportunities for students to engage with the AACSB principles, including globalization, diversity, technology, ethics, social responsibility, and sustainability. The Vantage assessments and test bank that accompany this text are also correlated to AACSB standards.

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Chapter 3

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Reading Activity 11.1: Business Case Study—Netflix

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Reading Activity 12.1: Business Case Study—Akamae

Reading Activity 12.2: Business Case Study—Advanced Micro Devices (AMD)

Chapter 13

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Reading Activity 14.1: Business Case Study—Starbucks

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Reading Activity 15.2: Business Case Study—M-Pesa

Chapter 16

Reading Activity 16.1: Business Case Study—Airbnb

Reading Activity 16.2: Business Case Study—Lyft

Chapter 17

Reading Activity 17.1: Business Case Study—Duolingo

Reading Activity 17.2: Business Case Study—Bayer AG

Chapter 18

Reading Activity 18.1: Business Case Study—BenevolentAI

Reading Activity 18.2: Business Case Study—Avangrid, Inc.

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Chapter 3

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Chapter 4

Simulation Activity 4.1: Generating New Business Ideas

Chapter 5

Simulation Activity 5.1: Exploring the Parts of a Business Model

Chapter 6

Simulation Activity 6.1: Explaining Elements of the Marketing Mix

Chapter 7

Simulation Activity 7.1: Identifying Market Segments

Chapter 8

Simulation Activity 8.1: Analyzing the Seven Stages of the Sales Cycle

Chapter 9

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Chapter 16

Simulation Activity 16.1: Navigating Financial Statements

Chapter 17

Simulation Activity 17.1: Financing Equity and Debt

Chapter 18

Simulation Activity 18.1: Making Data-Based Decisions With Business Analytics

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About the Authors

Heidi M. Neck

Heidi Neck, PhD, is the Jeffry Timmons Professor of Entrepreneurial Studies at Babson College, where she also serves as the Academic Director of the Babson Academy. In this role, she is at the forefront of shaping the future of entrepreneurship education, influencing universities worldwide to rethink and innovate their approaches to teaching entrepreneurship. The Babson Academy, under Neck's leadership, serves as a catalyst for this transformation, expanding access to high-quality entrepreneurship education and fostering a global community of educators dedicated to advancing the field.

A cornerstone of Neck's work is her leadership of Babson's Symposia for Entrepreneurship Educators (SEE) programs equipping faculty from around the world with the skills and knowledge necessary to teach entrepreneurship "entrepreneurially." She emphatically believes that how we teach entrepreneurship is just as important, if not more important, than the content. Additionally, Neck founded the Babson Collaborative, which connects colleges and universities worldwide, helping them strengthen their capacity and capability in growing entrepreneurship education ecosystems. This global institutional membership organization provides a platform for knowledge exchange, collaboration, and professional development.

Throughout her tenure at Babson College, Neck has been recognized for her outstanding contributions to education at all levels, from undergraduate and graduate students to executive education learners. Her teaching excellence has been celebrated not only at Babson but also by prestigious international organizations, including the Academy of Management and the United States Association for Small Business and Entrepreneurship (USASBE). In 2016, she was named the Entrepreneurship Educator of the Year by The Schulze Foundation, an honor she received again in 2022 from USASBE for her continued innovation and leadership in entrepreneurship education.

Neck's influence extends beyond the classroom and into the broader field of entrepreneurship education. As a Past President of USASBE, she has played a crucial role in shaping policies and initiatives aimed at improving entrepreneurship education. Her research focuses on key areas such as entrepreneurship education, the entrepreneurial mindset, ideation, and entrepreneurship within organizations. These interests have led to the development of influential academic works that have set new standards in entrepreneurship pedagogy.

As an accomplished author, Neck has made significant contributions to the field through her publications. Her widely adopted textbook, *Entrepreneurship: The Practice & Mindset*, now in its third edition, has received numerous accolades, including the Breakthrough Book of 2018 award from Sage Publishing, the 2018 Most Promising New Textbook Award, and the 2021 Textbook Excellence Award from the Textbook & Academic Authors Association (TAA). The book is widely recognized for its innovative approach, emphasizing an experiential and practice-based perspective on entrepreneurship.

Neck's latest textbook, *Introduction to Business: For a Sustainable and Entrepreneurial Future*, now in its second edition, takes a fresh approach by incorporating sustainability and an entrepreneurial mindset into general business education, aligning with contemporary trends in the field. Additionally, she is the lead author of *Teaching Entrepreneurship: A Practice-Based Approach*, a two-volume series published by Elgar Publishing, which serves as a practical guide for educators seeking to implement experiential teaching methods in their classrooms. Overall, Neck has authored six books and more than 45 refereed articles, book chapters, and research monographs, solidifying her reputation as a thought leader in entrepreneurship education.

Beyond academia, Neck is a sought-after speaker and educator, regularly delivering keynotes and workshops on the importance of fostering an entrepreneurial mindset and leveraging entrepreneurship as a tool for positive societal impact. Her ability to translate complex concepts into practical, actionable insights has made her a respected voice in the field. She has also successfully bridged academia and practice by co-founding VentureBlocks, an entrepreneurship education technology company, and achieving a successful exit with FlowDog, a canine aquatic fitness and rehabilitation center near Boston. Additionally, she has served on the board of A. Wilbert's & Sons, a seventh-generation, family-owned land-management company in Louisiana, further demonstrating her ability to apply entrepreneurial principles in diverse settings.

Neck's academic journey began at Louisiana State University, where she earned her B.S. in Marketing. She went on to complete her MBA and Ph.D. in Strategic Management and Entrepreneurship at the University of Colorado at Boulder. Her multidisciplinary background, coupled with her passion for education and entrepreneurship, has shaped her approach to teaching and research, making her one of the most influential figures in entrepreneurship education today.

When she's not inspiring the next generation of entrepreneurs or shaping the future of entrepreneurship education, Neck enjoys engaging in one of her newest passions: pickleball. Whether on the court or in the classroom, she continues to embody the entrepreneurial spirit, pushing boundaries and challenging conventional wisdom to drive innovation in education and beyond.

Christopher P. Neck

Christopher P. Neck, PhD, is currently a Professor of Management at Arizona State University, where he held the title "University Master Teacher." From 1994 to 2009, he was part of the Pamplin College of Business faculty at Virginia Tech. He received his PhD in management from Arizona State University and his MBA from Louisiana State University. Neck is author and/or coauthor of 30 books, including *Self-Leadership: The Definitive Guide to Personal Excellence* (2017, Sage; 2nd ed., 2019; 3rd ed., 2024); *Get a Kick Out of Life: Expect the Best of Your Body, Mind, and Soul at Any Age* (2017, Clovercroft Publishing); *Fit to Lead: The Proven 8-Week Solution for Shaping Up Your Body, Your Mind, and Your Career* (2004, St. Martin's Press; 2012, Carpenter's Sons Publishing); *Mastering Self-Leadership: Empowering Yourself for Personal Excellence* (6th ed., Pearson, 2013); *The Wisdom of Solomon at Work* (2001, Berrett-Koehler); *For Team Members Only: Making Your Workplace Team Productive and Hassle-Free* (1997, Amacom Books); and *Medicine for the Mind: Healing Words to Help You Soar* (4th ed., Wiley, 2012). Neck is also the coauthor of the principles of management textbook *Management: A Balanced Approach to the 21st Century* (2013, Wiley; 2nd ed., 2017, Sage; 2021, 3rd ed., Sage); an introductory entrepreneurship textbook, *Entrepreneurship,* (2017, Sage; 2nd ed., 2020); and an introductory organizational behavior textbook, *Organizational Behavior* (2017, Sage; 2nd ed., 2019).

Dr. Neck's research specialties include employee/executive fitness, self-leadership, leadership, group decision-making processes, and self-managing teams. He has over 200 publications in the form of books, chapters, and articles in various journals. Some of the outlets in which Neck's work has appeared include *Journal of Applied Psychology, Organizational Behavior and Human Decision Processes, Journal of Organizational Behavior, The Academy of Management Executive, Journal of Applied Behavioral Science, Journal of Managerial Psychology, Executive Excellence, Human Relations, Human Resource Development Quarterly, Journal of Leadership Studies, Educational Leadership*, and *The Commercial Law Journal.*

Neck is the editor of the journal *Administrative Sciences* and the former deputy editor of the *Journal of Leadership and Management*. Due to Neck's expertise in management, he has been cited in numerous national publications, including *The Washington Post, The Wall Street Journal, The Los Angeles Times, The Houston Chronicle*, and *The Chicago Tribune.*

Dr. Neck was voted as a semifinalist (out of 140 nominations) for the prestigious international 2020 Baylor University Cherry Award for Great Teaching. He finished in the top six of all nominations. Neck was also the recipient of the 2007 *Business Week* "Favorite Professor Award." He is featured on *Business Week* as one of the approximately 20 professors from across the world receiving this award.

Dr. Neck has taught over 80,000 students during his career in higher education. He currently teaches a mega section of management principles to approximately 1,000 students at Arizona State University.

Neck was the recipient of the 2024 and 2020 John W. Teets Outstanding Undergraduate Teaching Award (voted by W. P. Carey students). Neck also received the 2024 W. P. Carey Huizingh Outstanding Undergraduate Teacher Award as well as the Order of Omega Outstanding Teaching Award for 2012. This award is granted to one professor at Arizona State by the Alpha Lamda Chapter of this leadership fraternity. His class sizes at Virginia Tech filled rooms of up to 2,500 students. He received numerous teaching awards during his tenure at Virginia Tech, including the 2002 Wine Award for Teaching Excellence. Also, Neck was the 10-time winner (1996, 1998, 2000, 2002, 2004, 2005, 2006, 2007, 2008, and 2009) of the "Students' Choice Teacher of the Year Award" (voted by the students for the best teacher of the year within the entire university). Also, some of the organizations that have participated in Neck's management development training include GE/Toshiba, Busch Gardens, Clark Construction, the United States Army, Crestar, American Family Insurance, Sales and Marketing Executives International, American Airlines, American Electric Power, W. L. Gore & Associates, Dillard's Department Stores, and Prudential Life Insurance. Neck is also an avid runner. He has run the marathon distance over 100 times, including the Boston Marathon, New York City Marathon, and the San Diego Marathon. In fact, his personal record for a single long-distance run is a 48-mile run.

Emma L. Murray

Emma L. Murray, BA, Hdip, completed a bachelor of arts degree in English and Spanish at University College Dublin (UCD) in County Dublin, Ireland, followed by a higher diploma (Hdip) in business studies and information technology at the Michael Smurfit Graduate School of Business in County Dublin, Ireland. Following her studies, Murray spent nearly a decade in investment banking before becoming a full-time writer and author.

Murray has worked on numerous texts, including business and economics, self-help, and psychology. She is the coauthor of the principles of management textbook *Management: A Balanced Approach to the 21st Century* (2013, Wiley; 2nd ed., 2017, Sage; 3rd ed., 2021, 4th ed., 2026); the introductory entrepreneurship textbook, *Entrepreneurship* (2017, Sage; 2nd ed., 2020), 4th ed., 2025; and an introductory organizational behavior textbook, *Organizational Behavior* (2017, Sage; 2nd ed., 2019; 3rd ed. 2024). She lives in London, UK, with her husband and two children.

Part I

Business in a Sustainable and Entrepreneurial World

Chapter 1

The Business of Business

Robert Alexander/Archive Photos/via Getty Images

Learning Objectives

1.1 Define business, discuss its role in generating economic and social value, and identify the most common business types in operation today.

1.2 Define key economic principles used in decision-making.

1.3 Explore the five building blocks of modern business.

1.4 Explain how businesses balance profit and purpose through three foundational principles.

1.5 Examine key trends shaping the future of work.

Business Impact Case: Patagonia—Ventura, California

SDG 13: Climate Action

Patagonia is a global brand that specializes in outdoor clothing and gear. The California-based company is a self-proclaimed activist brand and won the prestigious International Fabric of Life Award in 2022.[1] The award recognized Patagonia's 40 years of finding ways to run a successful business while making quality products and caring for people and the planet. Patagonia's mission is "We're in business to save our home planet," and this mission guides its business model today.[2]

Patagonia was officially founded in 1973 but has roots all the way back in 1957. Founder Yvon Chouinard, an avid climber, started forging rock-climbing pitons[3] at the age of 19 that he would sell for $1.50 a piece. As the demand for pitons went up, he founded the company Chouinard Equipment. In 1965, Yvon partnered with Tom Frost, an aeronautical engineer, to help make climbing tools stronger, lighter, and more functional. By 1970, they became the largest supplier of climbing hardware in the United States.

A new opportunity emerged while on a climbing trip in Scotland in 1970. Yvon decided to buy a regulation rugby shirt for climbing. "Overbuilt to withstand the rigors of rugby, it had a collar that would keep the hardware slings from cutting into the neck," Yvon explained.[4] When he returned from Scotland and wore it while climbing in the United States, Yvon's climbing friends asked where they could get one. He ordered a stack of rugby shirts from Umbro in England that sold out immediately. Seeing evidence of demand, Yvon began sourcing the rugby shirts from New Zealand and Argentina. Soon he further diversified into selling waterproof jackets and bivouac sacks (lightweight shelters smaller than tents) from Scotland, boiled-wool gloves and mittens from Austria, and handknit reversible "schizo" hats from Boulder, Colorado.

As the business grew, Yvon and Tom decided to name and brand their apparel. Not wanting to use Chouinard Equipment Company given its narrow association with rock climbing, they chose Patagonia, as it brings to mind "romantic visions of glaciers tumbling into fjords, jagged windswept peaks, gauchos and condors," recalled Yvon. Since 1973, Patagonia has grown its product lines and offers a wide array of general outdoor apparel: equipment for camping, surfing, fly fishing, skiing and snowboarding, mountain biking, and climbing, as well as packs and gear such as sleeping bags, laptop bags, and totes and slings for men, women, and kids. In addition to selling through retailers, Patagonia has over 70 stores worldwide, and this number is expected to increase.[5]

Customers, more than ever, appreciate Patagonia's mission to protect the Earth. Yvon was always focused on how businesses can help protect the environment. In the early years, Patagonia realized that the rock-climbing pitons were damaging the rocks. Although the pitons were a very profitable product for Patagonia (then Chouinard Equipment), the company decided to phase out the product and introduce aluminum chocks instead, a better alternative that didn't need to be hammered and could be wedged by hand.

Today, Patagonia continues to set the example of how to do big business and good business in the 21st century. Patagonia has built its brand and its business around being an institution that stands for what is right. Here are a few examples:

1. **Environmental Responsibility and Product Repair:** Patagonia's "Worn Wear" program encourages customers to repair and reuse their clothing instead of buying new. It provides free repair guides, hosts repair events, and sells secondhand Patagonia gear online, promoting a circular economy and reducing waste.
2. **Sustainable Materials:** Patagonia continually strives to use sustainable materials in its products. For example, it uses recycled polyester, organic cotton, and hemp in many of its clothing lines. Patagonia was also one of the first companies to use 100% recycled down and nylon in its products.
3. **1% for the Planet:** Patagonia donates 1% of its sales to environmental causes through its membership in the "1% for the Planet" initiative. This means millions of dollars go to grassroots environmental organizations working to protect the environment.
4. **Activism and Campaigns:** Patagonia runs bold activism campaigns, such as its "Save the Blue Heart of Europe" initiative, aimed at protecting rivers in the Balkans, and its fight against the Trump administration's rollbacks of national monuments in Utah. Its website and social media are often used to raise awareness of environmental and social justice issues.
5. **Fair Trade Practices:** Patagonia is a leader in fair trade manufacturing, ensuring that the workers who produce Patagonia goods are paid fairly and work in safe, ethical conditions. The company has certified a growing number of its products as Fair Trade, increasing wages and improving the lives of factory workers.

In line with its longstanding commitment to doing business differently, Patagonia continues to set an example for corporate responsibility in the 21st century. In 2022, Patagonia made an unprecedented move by transferring ownership of the company to two environmental trusts, ensuring that all profits not reinvested into the business would be directed toward fighting the climate crisis. This bold decision is a testament to Patagonia's mission to prioritize the planet over profit. As Yvon stated, "Earth is now our only shareholder."[6] This action reaffirms Patagonia's commitment to environmental stewardship while challenging other corporations to rethink their impact on the world.

Critical Thinking Questions

1. How do Patagonia's efforts to protect the environment and act ethically as a business affect customer behavior and brand loyalty?
2. What long-term effects could Patagonia's focus on climate protection have on the company's profits and place in the market?
3. Patagonia calls itself an activist company. What other companies are activists?

What Is Business?

1.1 Define business, discuss its role in generating economic and social value, and identify the most common business types in operation today.

If you are reading this book, we want you to know that the world needs your business acumen, creativity, leadership, and entrepreneurial spirit now more than ever. In this post-COVID world, we now view work and life in different ways. As much as some want to go back to the times before COVID, many industries are forever changed; the nature of work is forever changed.

Today's world needs people who can think and act like entrepreneurs by channeling disruption into opportunity and getting comfortable with navigating periods of unprecedented change. Modern business is complicated by many novel challenges. Businesses must navigate the mainstreaming of artificial intelligence, an uncertain economic climate, rapid technological change, and the ongoing need to attract and retain top talent. They also face pressure to stay ahead of competitors, support a diverse workforce, maintain employee satisfaction, address skills shortages, manage high employee turnover from a "job-hopping" mindset, meet growing customer expectations, and adapt to changes in consumer behavior.

Modern business is about creating the future and viewing change and uncertainty as opportunity. Business is the global platform for impact today, which is why it's essential that you understand its foundations.

The word *business* has two interpretations. There is *a* business and then there is *doing* business. A **business** is defined as an organization or entity that is engaged in commercial, industrial, or professional activities that produce and/or sell goods or services for the creation of economic *and* social value. Apple, your local smoothie shop, or a law firm are all examples of businesses.

Doing business is the process of selling, buying, producing products, or providing services. Businesses engage in three types of activities: commercial, industrial, or professional.

Commercial indicates the selling of goods or services. In the opening case, Patagonia sells goods in the form of outdoor apparel. Patagonia clothes, however, are made by factories not owned by Patagonia. These factories engage in **industrial activities**, or the manufacturing of goods.

Professional activities are primarily those that require trained or certified skills. For example, a law firm is a business composed of professional lawyers. A medical practice is a business composed of trained and certified doctors and nurses. Even a university is a business composed of academics who are experts in their fields.

In sum, a business is an organization, and doing business is an activity or action. Both, however, should generate economic and social value. **Economic value** relates to the profitability of the business and its ability to generate revenue, pay expenses, and generate positive net income. **Profit** is the amount of money gained after selling goods and services and paying expenses associated with operating the business. **Social value** encompasses the positive impact a business can have on society, including issues related to employee diversity, equity, and inclusion, as well as issues related to environmental sustainability and protecting and preserving the planet for future generations.

In the Patagonia example, economic value is generated by the sales of Patagonia products. For example, if Patagonia sells a winter parka for $250 (called revenue), this is not all profit. Making the product carries a cost that must be deducted, not to mention the cost of just doing business. After costs have been deducted, the profit from that one winter parka may only come to $50, but that profit generates economic value. Patagonia also generates social value through, for example, its "1% for the Planet" program and its efforts to make products from recycled materials.

Types of Business

Different types of businesses have their own distinct features. We often refer to businesses as organizations, but there is an important difference between the two terms. A business focuses on selling and producing goods, while an **organization** is a group of people formed and structured in a certain way to achieve goals. In other words, people in organizations engage in business tasks and activities to meet organizational objectives. Despite these definitional differences, the terms are often used interchangeably.

In the United States, different types of businesses are categorized based on revenue, number of employees, and geographic reach.

Startups

A startup is a newly formed business with limited or no operational history. The term has various meanings, but this text subscribes to Steve Blank's definition of **startup**: "a temporary organization in search of a scalable business model."[7] In other words, startups are trying to become sustainable, high-growth businesses. Some of today's largest and most well-known businesses began as startups, including eBay, Uber, Airbnb, Apple, and Facebook. Startups are created to solve a problem, fill a market gap, or disrupt existing businesses through innovation. For example, Uber as a startup sought to make transportation more convenient and affordable. Traditional taxi services were often difficult to hail, especially in busy areas, during peak hours, or in locations with limited taxi presence. Calling a cab could also be unreliable, with long wait times and uncertainty about when (or if) it would arrive. Uber, with its app-based, real-time tracking technology, completely disrupted the taxi industry.

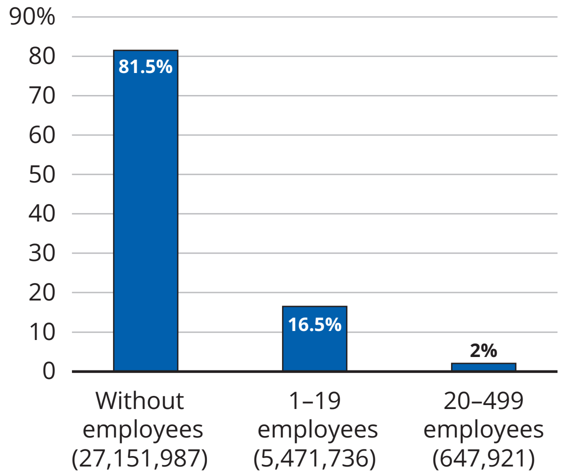
Small Businesses

The U.S. Small Business Administration defines a **small business** as an independent entity having up to 500 employees. Figure 1.1 demonstrates the breakdown of businesses by employee size. Almost 50% of all workers in the United States are employed by a small business. Additionally, 99.9% of all U.S. businesses qualify as small businesses.[8] Small businesses are the backbone of the U.S. economy as job creators and entrepreneurs. They account for two-thirds of all jobs created in the United States in the past 25 years. Job creation is a cornerstone of a healthy economy. It leads to increased income, stimulates consumer spending, generates tax revenue, drives business expansion, and enhances productivity.

Micro Businesses

A **micro business** is a very small business that employs fewer than 10 employees, and many micro businesses have only one employee—the owner. Of the 33 million small businesses in the United States, a whopping 80% have zero employees, with the owner managing all operations.[9] This shows how important self-employment is to the U.S. economy. Examples of micro businesses include freelancers, home-based businesses, or side hustles. The website Etsy is known as a platform where micro businesses can sell their products.

Figure 1.1 ▪ Small Businesses by Employee Size 2024



Source: Main, K. (2024, April 29). Small business statistics of 2024. *Forbes*. https://www.forbes.com/advisor/business/small-business-statistics/

Cooperatives

A **cooperative (co-op)** is a business owned and controlled by its members to meet common economic, social, or cultural needs. They can exist in various sectors, such as agriculture, retail, housing, and banking. By focusing on values like fairness, equality, and working together, and pooling resources and sharing risks, cooperatives can empower individuals and strengthen local economies. There are over 30,000 co-ops in the United States, providing more than $700 billion to the economy by supporting communities with services like farming, food, housing, and childcare.[10] Each member has a voice in how the co-op is run, and everyone shares in the benefits.

You might know the company Ocean Spray for its cranberry-based products, but it's also a farmer-owned cooperative made up of more than 700 family farms across the United States, Canada, and Chile. Each farmer is both a grower and an owner, actively involved in decisions like electing the board of directors and setting the cooperative's strategy. This structure ensures that operations reflect the interests of the farmers themselves. By pooling their resources, Ocean Spray members can fund research, product development, and marketing efforts that would be difficult to tackle alone. This teamwork has led to innovations like the first cranberry juice cocktail and the ever-popular Craisins, those sweet, dried cranberries![11]

Medium-Sized Businesses

A medium-sized business, if defined by number of employees, is still a small business according to the U.S. Small Business Administration. The common terminology used to classify medium-sized businesses is "SME," an acronym that stands for small- to medium-sized enterprise. SME works to distinguish smaller businesses of fewer than 50 employees from more structured and likely growing businesses that have up to 500 employees and significant revenue greater than $50 million. Utah-based fast-food chain Crown Burgers is an example of a medium-sized business. It has multiple locations across Utah and specializes in pastrami burgers, with almost 300 employees and $52 million in revenue.

Another type of SME is a growth company. A **growth company** is a business that increases its annual revenue faster than its competitors in the same industry or market. Crochet kit company The Woobles, founded by husband-and-wife team Adrian Zhang and Justine Tiu, is a good example of a growth company. Launched during the COVID-19 pandemic in 2020, the crochet kits, which also come with step-by-step tutorials, captured the attention of thousands of homebound people keen to craft their own creations. Since the company's founding, the Woobles founders estimate that more than half a million customers

Crochet kit company Woobles captured the attention—and business—of a homebound audience during the COVID-19 pandemic to achieve rapid growth.

iStock.com/RamilF

have learned how to crochet by using their products.[12] However, as coworking spaces provider WeWork discovered, there is such a thing as growing too fast. Founded in 2010 by Adam Neumann and Miguel McKelvey, WeWork heavily invested in office space, becoming the largest leaseholder of prime real estate in London and New York while renting hundreds of other locations across 39 cities. By 2019, the startup was valued at $49 billion, and Neumann was ousted owing to a failed attempt at taking the company public. In 2023, WeWork was forced into bankruptcy by its debt load and its overextended portfolio, exacerbated by the huge financial losses incurred by unused, vacant office space during the pandemic.[13]

WeWork discovered the hard way that rapid growth is not always a smart business move. Although Neumann launched a bid to buy back WeWork in 2024 and once again take control of the firm, he did not succeed, instead opting to compete with his former company through his new real estate venture Flow.[14]

Multinational Corporations

A **multinational corporation**, also known as an MNC, is a business with operations in multiple countries, managing a network of offices or production facilities, that sells products and services to customers all over the world. Apple, Alphabet, and Microsoft are some of the biggest multinationals in the United States.[15] Multinationals also have many businesses under one umbrella. For example, Procter & Gamble manages over 65 brands across 10 product categories, including hair care, feminine care, family care, and skin and personal care.[16]

Because of their global presence and scale, multinationals have significant resources and influence around the world not only economically but also socially. For example, the Apple Watch Series 9 and later have achieved over a 75% reduction in carbon usage, supporting Apple's objective to make all products carbon neutral by 2030.[17] Additionally, Apple has eliminated leather across all its product lines, opting instead for fiber-based packaging in its latest Apple Watch lineup. In line with these initiatives, Apple also introduced a new tool in its Grid Forecast app designed to inform users when clean energy is available on the power grid, enabling them to optimize their electricity use for environmental impact.[18] These initiatives also impact every supplier to Apple and even customers. The trickle-down and trickle-up effect over time can be significant.

Nonprofit Organizations

A **nonprofit organization** is a business that is exempt from paying tax, with the expectation that any generated profit will be reinvested in the business and never paid to owners. Nonprofits primarily exist to serve a public or social cause. Their main objective is to fulfill a mission, whether it's related to education, health care, the arts, environmental conservation, or other societal needs. For example, YouthBuild USA is a nonprofit organization that provides on-the-job training in particular fields such as construction, health care, and IT for young people who are unemployed or out of school. Feeding America, the largest charity in the United States, is also an example of a nonprofit. Guided by its goal to end hunger, it teams up with thousands of partner agencies, meal programs, and food pantries to help provide more than 5 billion meals to millions of families living in poverty across the United States.[19]

Entrepreneurial Thinking Activity

Exploring Responsibilities in Different Business Types

For this activity, you'll step outside the classroom and connect with managers or business owners from two distinct types of businesses: a small business (such as a local shop or startup) and any other type of larger business discussed in this chapter. Begin by identifying a manager or the owner at each business type selected. Set up a brief interview with each, either in person or online, and ask them about their job responsibilities. Focus on understanding the scope of their roles, types of decisions they make, resource availability, competitive pressures, and managing employees across different business sizes.

Once you've gathered your insights, create a table comparing the responsibilities and challenges these managers and/or owners face. Pay particular attention to how the size of their organizations influences their roles. Reflect on what you learned and what lessons surprised you.

Critical Thinking Questions

1. What are the key differences in challenges faced by managers or owners of small businesses versus larger businesses? Think about factors such as resource limitations, competition, decision-making, and employee management and how these challenges vary depending on business size.
2. What insights from your interviews challenged or reinforced your understanding of business?
3. What did you learn about interviewing managers and/or owners that you can apply to future interviews or discussions?

The Economics of Business

1.2 Define key economic principles used in decision-making.

Business success is heavily influenced by both micro- and macroeconomics. **Microeconomics** is a branch of economics that analyzes the behavior of individuals, companies, and industries in making decisions concerning the allocation of limited or scarce resources. While microeconomics helps us to understand why and how companies make certain decisions, **macroeconomics** takes a wider, big picture view by studying broader economic trends that affect the stability, behavior, and performance of entire economies, such as the U.S., Mexican, or Canadian economy.

In this chapter, we address microeconomics, and in Chapter 3, we delve deeper into global business to discuss key aspects of macroeconomics.

Businesses make choices every day about what to produce, how to produce it with the resources they have, who their customers will be, and what prices to charge. For example, imagine a local coffee shop near campus. The owner must decide which drinks and snacks to sell, whether to make them in-house or buy them from a supplier, who the main customers are—students, professors, or locals—and how much to charge. They also have to consider their resources, like staff, equipment, and ingredients, the competition nearby, what customers are willing to pay, and the cost of each item. If they decide to offer smoothies, they may have to give up shelf space or time they could use to sell something else. To make these types of decisions, the owner needs to understand some basic microeconomic concepts that affect how limited resources are used. These include economic resources, market structure, supply and demand, production costs, and opportunity cost.

Economic Resources

Economic resources are the different factors used to produce goods and services. There are four main types of economic resources: land, labor, capital, and entrepreneurship.

1. **Land** refers to all natural resources available to produce goods and services. This includes agricultural land, minerals, water, forests, and other raw materials. Land plays a key role in economic activity as it provides all the raw materials necessary for production—for instance, wood for furniture, cotton to make clothing and textiles, and steel for construction.
2. **Labor** represents the physical and mental efforts made by people involved in the production process. It includes everyone involved in the production of goods and services, including

skilled and unskilled workers. Factory workers, doctors, teachers, farmers, and nurses are just a few examples of people who make up the labor force. Their skill, knowledge, expertise, and experience significantly influence economic output.

3. **Capital** refers to the human-made resources, such as machinery, tools, technology, and other equipment used in the production of goods and services. Factories, computers, and delivery trucks are examples of capital resources that increase the efficiency of production, leading to enhanced productivity and economic growth.
4. **Entrepreneurship**, in economic terms, relates to starting new businesses. Entrepreneurs use the other three resources—land, labor, and capital—to create new products and services and bring them to market. Entrepreneurs such as business founders and inventors are essential to innovation and economic growth as they create jobs, promote social change, and drive technological advancements.

These basic resources are key to how businesses decide to use what they have in the smartest way possible to make and sell more products and earn more money.

Market Structure

A **market (economic perspective)** is a system where people can sell goods and services to people who wish to buy those goods and services. **Market structure** refers to the way a market is organized based on the number of businesses in the market, the type of products they sell, how easy it is for new companies to enter, and how much control each business has over prices. There are four main economic market structures: perfect competition, monopoly, monopolistic competition, and oligopoly.

A farmer's market is an example of perfect competition because if their prices are too high, a customer will buy from somewhere else.

iStock.com/Spitzt-Foto

Perfect competition is a market structure where identical products are sold by a number of small companies, and no individual business has a competitive advantage over another. In a perfectly competitive market, companies must sell at the same market price because of the high level of competition. Any efforts to charge more than the market price will likely result in consumers purchasing from a lower-cost seller. A farmer's market is a good example of perfect competition. The products and prices tend to be similar; consumers are informed of the prices of the goods before they buy, and the sellers do not have the power to set the prices above market level.

A **monopoly** is a market structure in which a single company dominates the entire supply of a good or service, with no close substitutes available to consumers. This means that one company controls the entire market, so it can set prices without any concern about competitors. It's also very hard for new companies to enter the market because of obstacles like high startup costs, legal rules, or owning important resources. Because of this power, governments often step in to make sure the company doesn't take advantage of customers. In 2024, the U.S. Department of Justice ruled Google as a monopoly that has dominated several key markets such as online search, digital advertising, and mobile operating systems. Its dominance makes it very difficult for competitors to gain a foothold in these markets, thereby restricting choice for consumers.[20]

Monopolistic competition occurs when there are many companies selling products that are similar but not identical. Each business tries to make its product stand out through branding, quality, or features, which gives them some control over price. Unlike monopolies, companies face strong competition, but it is relatively easy for new businesses to enter or exit. This type of market is very common in everyday industries like clothing stores, restaurants, or coffee shops, where many businesses offer similar but not identical products. For example, restaurants can differentiate themselves through branding, pricing, menu options, and service style, giving each some control over pricing. Although there might be competition, it's still relatively easy for new restaurants to enter or exit the market.

In an **oligopoly**, a small number of large firms dominate the market and have the power to influence prices. Sometimes these firms collude to set uncompetitive prices in the market. Evidence of collusion has been found in the oil, railroad, airline, and big tech industries. The U.S. airline industry is considered an oligopoly in which four major carriers—American Airlines, Delta Air Lines, Southwest Airlines, and United Airlines—control two-thirds of the U.S. domestic air travel market. The domination of these four airlines not only limits competition and innovation but also gives them the power to influence each other's pricing, leading to higher ticket prices for consumers.[21]

Understanding different types of market structures helps explain why businesses act the way they do, how prices are set, how much competition is out there, and how resources get used in the economy.

Supply and Demand

Supply and demand are the fundamental forces in economics that determine prices of goods and services in a market as well as how economic resources are allocated. **Demand (economic perspective)** refers to how much consumers are willing and able to purchase at various prices, while **supply (economic perspective)** refers to how much companies are willing to produce and sell at various prices. When demand for a product rises and supply remains unchanged, prices typically increase. Conversely, if supply rises but demand remains steady, prices usually fall. Equilibrium is achieved when the quantity supplied equals the quantity demanded, setting a stable price point. For example, when large flat-screen televisions first hit the market and became popular in the early 2000s, you might have paid anywhere from $4,000 for a 40-inch Sony to $6,000 for a 58-inch Panasonic.[22] At this time, demand was not as high as it is today, and component parts were also expensive. There were also a few dominant players, such as Sony and Panasonic. Fast forward to 2024, and you could buy a 55-inch LED 4K UHD Smart TV for $350 at Best Buy. Demand is still high, but prices have dropped due to increased competition and fewer components needed to build the TVs.

Price elasticity of demand is an indicator of how sensitive demand and supply are to changes in the price of a product; it measures how much the quantity demanded of a good or service responds to a change in its price. It helps companies understand how their consumers respond to price changes. There are two main types of elasticity of demand: elastic demand and inelastic demand. **Elastic demand** means that consumer demand for a good or service changes relatively more than the price change of that good or service, whereas **inelastic demand** means that consumer demand for a good or service changes relatively less than the price change of that good or service. Examples of elastic goods may include certain luxury goods or food and beverages. For example, if the price of a luxury car drops by 15% and sales increase by 25%, demand is considered elastic. Inelastic goods include essential items like gas, electricity, water, and prescription drugs. Think of inelastic goods as those that don't have a lot of replacements or substitutes. For example, if the cost of an HIV drug increased by 20% but drug usage only dropped 1%, demand would be considered inelastic.

Do you remember the toilet paper craze during the COVID pandemic? People would likely pay anything for toilet paper, but the U.S. federal government was concerned about price gouging. **Price gouging** is when a business raises prices significantly and unfairly, often during a time of crisis, to exploit consumers' needs. During the COVID pandemic, the Defense Production Act was invoked, allowing federal authorities to take action against price gouging for essential items such as toilet paper and personal protective equipment such as KN95 masks.[23]

Production Cost

A key part of microeconomics is evaluating the costs of producing goods and services in a way that minimizes cost and maximizes profitability. Businesses use the concepts of marginal cost and marginal revenue to identify the most cost-effective methods of production. **Marginal cost** is the additional cost a business incurs when it produces one additional unit of a product, and **marginal revenue** is the additional revenue gained by selling one additional unit of a product.

Imagine a small company named T-Think that makes T-shirts printed with uplifting and aspirational quotes from great thinkers throughout history. It costs T-Think $5 to produce each shirt, and they sell each shirt on their website for $20. If the company is producing 100 shirts, the total cost to produce those shirts is $500 because 100 shirts × $5 = $500. If the company decides to produce one extra T-shirt, the new total cost would be 101 shirts × \$5 = \$505. The marginal cost of adding that one new T-shirt is \$5, the difference between \$505 and \$500.

But now let's look at what adding that one T-shirt does to marginal revenue. If the company sells 100 shirts at \$20 each, the revenue is \$2,000, because 100 shirts × \$20 = \$2,000. If the company sells one more shirt, totaling 101 shirts, the new revenue is \$2,020, because 101 shirts × \$20 = \$2,020. In this case, the marginal revenue is \$20 for each additional shirt sold. Because marginal cost is \$5 and marginal revenue is \$20, the decision to produce more will result in more profit. This would only be a bad decision if the marginal cost exceeds marginal revenue.

Evaluating marginal costs and revenue costs of production also helps companies to better understand economies of scale, the cost benefits that companies experience when production increases and becomes more efficient. For example, for T-Think, they may learn that producing 1,000 T-shirts could decrease the cost per shirt to \$4 based on economies of scale. This would mean that their profit for each shirt sold would be greater if they continued to sell at \$20 per shirt.

Opportunity Cost

Economic decision-making strives for the most efficient allocation of resources, such as land, labor, and capital. A critical part of this decision-making is **opportunity cost**, an economic concept that helps companies make decisions about the losses that may be incurred by choosing one alternative over another. To evaluate these costs, each option under consideration must be weighed against the others.

Let's say that the owner of T-Think is exploring two options to grow the company. Option 1 is use their resources to produce and sell another 200 shirts. Option 2 is using those same resources to produce and sell 200 hats, also with uplifting and aspirational quotes from great thinkers throughout history. We also need to assume that the owner does not have enough time and resources to do both, and they need to decide on one of the two options.

We know from above that the cost to produce each T-shirt is \$5, so the total cost to produce an additional 200 shirts is \$1,000. If they sell each shirt for \$20, the additional revenue would be \$4,000 because 200 shirts × \$20 = \$4,000. Profit is revenue – costs; therefore, \$4,000 – \$1,000 = \$3,000. Additional profit in Option 1 is \$3,000.

Without going into great detail, let's assume that the profit per hat is \$12, then the profit from producing and selling 200 hats is \$2,400.

If the owner decides to go with Option 1, producing more T-shirts, the opportunity cost is the profit they would have made if they chose to produce hats instead. In this example, the opportunity cost is then \$2,400. Given they can't do both options, the choice is go with Option 1 is a good one; however, given lack of time and resources to do both, they are still foregoing an additional \$2,400 in profit.

Overall, the core economic decisions being made depend on the business type. Businesses have unique features that shape their responses to how they manage resources, how they deal with competition, and how they respond to market opportunities.

The Building Blocks of a Business

1.3 Explore the five building blocks of modern business.

In this textbook, we have mapped the essential components of all types of business to five blocks. These blocks represent the fundamentals of building and operating a business and are represented in Figure 1.2. The five blocks, detailed in the sections that follow, should be thought of as blocks that build a modern business for an increasingly sustainable and entrepreneurial world.

Block 1: Product and Service Offering

The Product and Service Offering is everything a company provides to its customers—whether it's a product, a service, or a mix of both—to meet their needs or solve a problem. It also includes how the company creates these offerings, delivers them to customers, and earns revenue in the process (Chapter 4). Every business offers something to customers who are willing to pay for that something because it is valuable to them in some way. The **offering** includes products (a smartphone), services (haircuts), or a combination of both (grocery delivery). The offering addresses not only the product or service but also the **business model**, which describes the rationale of how a business creates, delivers, and captures value (Chapter 5).[24] For example, ButcherBox offers high-quality, ethically farmed meat from sustainable sources to appeal to environmentally conscious customers. Its business model is a subscription model, so boxes are delivered monthly.

Recall from earlier in this chapter that startup companies typically come into being to solve a problem, fill a market gap, or disrupt existing businesses through innovation. The solution is a product, service, or combination of both. Therefore, we cannot talk about Block 1 without talking about new business creation. For example, college student Benjamin Stern founded Nohbo, a company that addresses the environmental problem of single-use plastic in personal care products. While still in high school, Stern recognized how much waste came from shampoo and body wash bottles. He came up with the idea to create single-use, water-soluble pods that contain shampoo, conditioner, and other hygiene products, thereby eliminating the need for plastic containers altogether. His idea won attention on the TV show *Shark Tank*, where he secured investment to grow the business. Today, Nohbo partners with hotels and major brands to reduce plastic waste, showing how a young entrepreneur's innovative thinking can lead to a business that benefits both consumers and the planet.[25]

Block 2: Markets and Customers

Markets and Customers emphasizes the importance of marketing (Chapter 6) and sales approaches (Chapter 8), and how every business works to identify and sell to customers in selected markets. **Customers** are people who are willing to buy and use the products or services a company offers. As defined earlier, a *market* in economic terms is a system in which people can sell products and services to people who wish to buy those products and services. But a **market (marketing perspective)** is a specific group of potential customers a business targets with its products or services—like college students, dog owners, or eco-conscious consumers. This definition focuses on customer needs and preferences. In other words, markets are made up of similar consumers who are ready to pay for what a business is selling in the market (Chapter 7). For example, high school students shopping for prom dresses are part of a different market than adults looking for professional work clothes. Successful companies know how to attract, sell to, and build relationships with customers (Chapter 8), which is done through the marketing and sales functions of a company. Businesses can't survive without customers in the markets they serve who are willing and able to pay, and who can be reached through accessible channels like advertising, online platforms, retail locations, or community networks driven by local influencers or word of mouth. For example, a small bakery might reach new customers by partnering with a local school fundraiser or joining a neighborhood Facebook group.

Block 3: Structure and Strategy

Structure and Strategy describes how organizations determine their structure to manage workflow, build a culture that supports their overall mission, and develop strategies to succeed in a competitive environment.

Every business has a structure and a culture, which is deeply connected to its strategy. An **organizational structure** determines the flow of work and outlines how tasks are directed to various employees to achieve organizational goals (Chapter 9). Think about a job you have now or have had in the past. You had a "manager" whom you reported to, and that manager reported to someone else. A **manager** is a person responsible for supervising employees and directing resources in order to achieve organizational goals. That is part of the structure of a company. The structure is designed to support the purpose of the company—its mission and purpose for existing. The combination of structure and purpose contributes to the corporate **culture**, which includes values and beliefs that create an environment that is unique to that business (Chapter 10). For example, Spotify's culture is based on several core values: fairness, learning from failure, autonomy, and continuous improvement. Employees work in an environment where they are encouraged to spend 10% of their time experimenting, inspired to discuss and celebrate failure, and given the confidence to take risks.[26]

The **competitive environment** identifies those businesses that compete for customers in the same industry and the different ways in which they compete to outperform each other—something that is called *strategy* (Chapter 11). For example, Unilever is a multinational company that owns popular brands such as Dove, Breyers, and Pure Leaf Tea. The company has stiff competition from other large companies, including Procter & Gamble, Johnson & Johnson, and Nestle. Unilever, however, works to differentiate itself at a product level and an organizational level. On a product level, it differentiates its soap category from competitors by producing Dove, which, unlike most soaps, not only cleans but also moisturizes. On the organizational level, its mission statement emphasizes sustainable living and lifelong vitality, claiming, "We meet everyday needs for nutrition, hygiene and personal care with brands that help people feel good, look good and get more out of life."[27]

Block 4: People Inside the Business

People Inside the Business looks at the human side of how companies work. It explains the difference between leaders and managers, the role of human resources, and how businesses keep teams and individuals performing well. This block also highlights why managing your own career matters and how to communicate clearly, even in fast-paced, distracting work environments.

People are the individuals who make a business run—from frontline employees to managers and leaders. A key part of this block is **soft skills**: the personal qualities and social abilities that shape how well someone communicates, collaborates, and solves problems. These skills are often underestimated, yet they play a vital role in workplace effectiveness and team success. Leadership, management, decision-making, and communication are especially important soft skills, though they can be challenging to develop. Leadership is about influencing, motivating, and empowering others to reach shared goals, while management is about organizing and guiding people to accomplish the work of the business (Chapter 12). Clear communication ensures that everyone understands their roles, responsibilities, and deadlines, reducing misunderstandings and conflicts (Chapter 14). It boosts employee morale and engagement by making individuals feel valued and informed, creating a positive workplace culture.

Employees are the backbone of a business, driving its operations, growth, and success. From the president of the company to middle managers to entry-level employees and every person in between, businesses employ people. In most SMEs and larger corporations, employees are hired through the human resources department. Effective human resources (HR) practices ensure that employees understand their role and how their performance will be measured (Chapter 13).

Because HR requires a lot of legal and regulatory compliance, a growing number of companies, especially small businesses, are outsourcing their HR tasks to outside experts and companies. HR company Bambee was started to fill a gap. Allan Jones, CEO and founder of Bambee, noticed that in the early stages, many small businesses lack an HR department. They often struggle with knowing which questions to ask during interviews, how to proceed after making a hiring decision, and how to implement essential policies. Jones observed the anxiety HR processes caused for business leaders and saw an opportunity to reduce that stress. This led to the creation of Bambee in 2016, founded on the belief that every U.S. business, regardless of size, should have access to an affordable, dedicated HR department.[28]

Block 5: Performance

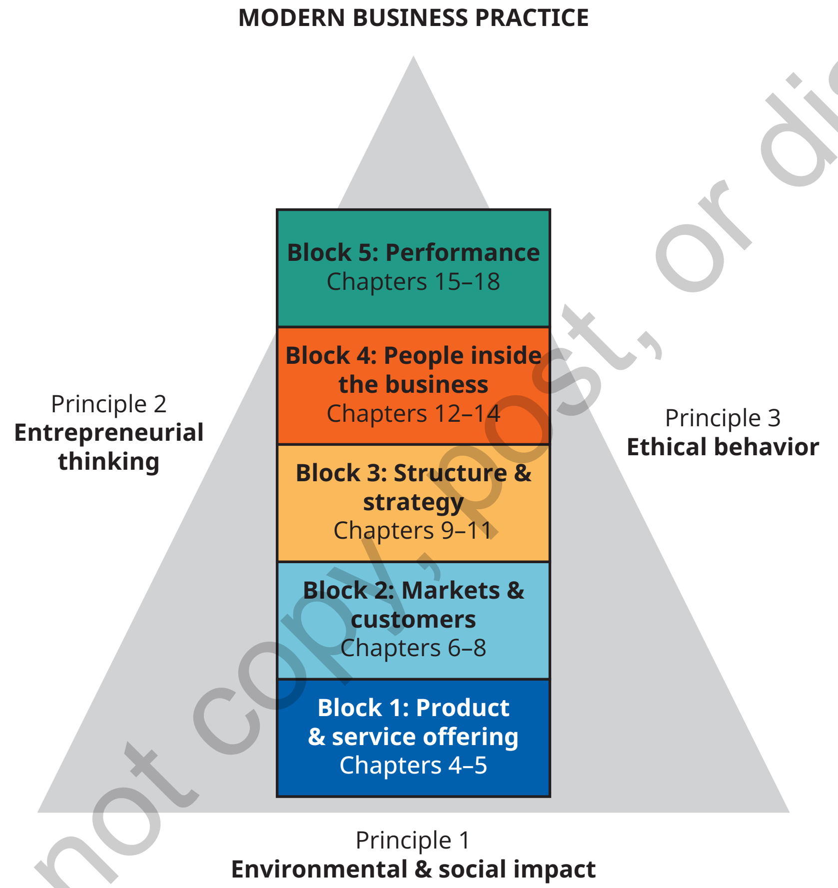
Performance is about how well a business runs—from making and selling products or services to managing daily operations smoothly. It includes making the supply chain more effective, tracking results with accounting, managing money wisely, and using business analytics to make smart decisions. All of these activities work together to show how well a company is reaching its goals and creating value for its customers, employees, and owners.

Operations are the behind-the-scenes activities that help a business create and deliver its products or services (Chapter 15). It's about understanding how the previous four blocks come together to make the organization run, and every business runs differently depending on what it offers. For example, a restaurant needs a system to track orders, a hospital manages patient records, a retail store tracks inventory, and a hotel keeps rooms clean and ready. Whether it's a product or service, online or in person, each type of business has unique operations to keep things running smoothly.

The key metric for any business is its financial performance. The accounting function is perhaps the most difficult to understand for students, unless you want to be an accountant. However, do not fear the numbers! Embrace the challenge and work to understand the basics of creating and reading financial statements (Chapter 16). Not everyone needs to be an accountant, but a general understanding of the numbers is necessary. All businesses will have financial statements that record and track revenue, expenses, profit, assets, and liabilities. Every business must manage the money coming into the business (called revenue) and the money leaving the business (called expenses), as well as understand the implications of financial decisions (Chapter 17). The story that numbers can tell can be quite interesting!

Key to understanding performance across the organization are business analytics—collecting, transforming, and analyzing data to develop insights and make more effective, data-based decisions (Chapter 18). Organizations that use data-driven decision-making are three times more likely to have better performance than those who don't.[29] Yet 75% of companies don't use most of the data they collect.[30] In modern business, analytics are used to improve efficiency, build better customer experiences, develop new products, and reduce expenses, among other things. As a result, business analytics touches just about every part of a company, and business analytics skills are in high demand. You may not need to be an expert, but most employers require at least a basic understanding of how data works and how it can be used to support smart decision-making.

Figure 1.2 ▪ Fundamental Building Blocks of Business



Balancing Profit and Purpose

1.4 Explain how businesses balance profit and purpose through three foundational principles.

Many of today's best organizations balance creating social and environmental impacts as well as profit to make a positive difference in the world. The U.S. Business Roundtable (BRT) is a nonprofit association composed of CEOs from major companies that represent every sector of the economy. In 2019, 181 CEOs issued a statement emphasizing the importance of **stakeholders**, people who have an interest in or are affected by a business, such as customers, employees, suppliers, and local communities. Why was this declaration so momentous? Because less than 30 years ago, back in 1997, the BRT stated that the only duty organizations had was to their **shareholders**, which are individuals or companies that own shares of stock in a corporation. In other words, the primary responsibility of business was to make a profit. The 2019 BRT statement offered a radically different viewpoint in that businesses exist not only to make a profit but also to be responsible for and care about all individuals that come into contact with the organization. This marked a significant shift in how business leaders define success—moving from a profit-only belief system to one that values people, planet, and profit alike.

Businesses that embrace profit and purpose aim to be financially successful and socially responsible. They believe that doing good for people and the planet can go hand in hand with doing well financially. Embracing profit and purpose requires the implementation of three foundational principles that are emphasized and practiced throughout this book: environmental and social impact (doing good), entrepreneurial thinking (creating boldly), and ethical behavior (acting with integrity). Though these will be addressed in greater depth in Chapter 2, let's briefly define the principles here.

The first principle, **environmental and social impact**, is at the heart of the phrase "doing good and doing well"—meaning doing good for the world and making a profit concurrently. Environmental and social impact is about creating positive, meaningful change in the world. Larry Fink was one of the first to really bring such an attitude to mainstream business.

You might be thinking, Who is Larry Fink? Fink is the founder and CEO of Blackrock, one of the world's largest investment management firms. In 2018, Fink wrote an open letter to all CEOs imploring them to address the world's most complex social and economic issues, highlighting difficult issues such as environmental protection and racial inequality. Fink stated in his letter:

> Companies must ask themselves: What role do we play in the community? How are we managing our impact on the environment? Are we working to create a diverse workforce? Are we adapting to technological change? Are we providing the retraining and opportunities that our employees and our business will need to adjust to an increasingly automated world?[31]

Fink explained that if a company doesn't show it stands for something beyond just making money, like helping people or protecting the environment, it could lose the support and trust of important groups like customers, employees, investors, and communities. And without that support, it might not be able to keep doing business successfully. Table 1.1 highlights some popular companies known for their ability to balance profit and purpose, but there are so many more out there. Look around!

Table 1.1 ▪ Companies That Do Good for the World While Making a Profit

Company	Description
Bombas	A sock company whose mission is to help the homeless. Learning that one of the most requested items in a homeless shelter is socks, it donates one pair of socks to homeless shelters for every pair of socks sold. Millions of socks have been donated.
Dog For Dog	The company sells all-natural, grain-free, healthy dog food to dog owners, donating an item to a dog shelter for every item purchased. As of 2024, Dog For Dog has donated more than 1.4 million pounds of dog food across the United States.
Ben & Jerry's	The purveyor of beloved ice cream, the ingredients used in its products must be fair trade and sustainably farmed.
Subaru	The car company proclaims it "loves the earth," and its actions support the claim. Through partnerships, like with the company Terracycle, it is turning hard-to-recycle trash into durable goods. Think park benches, playground equipment, and bike racks!

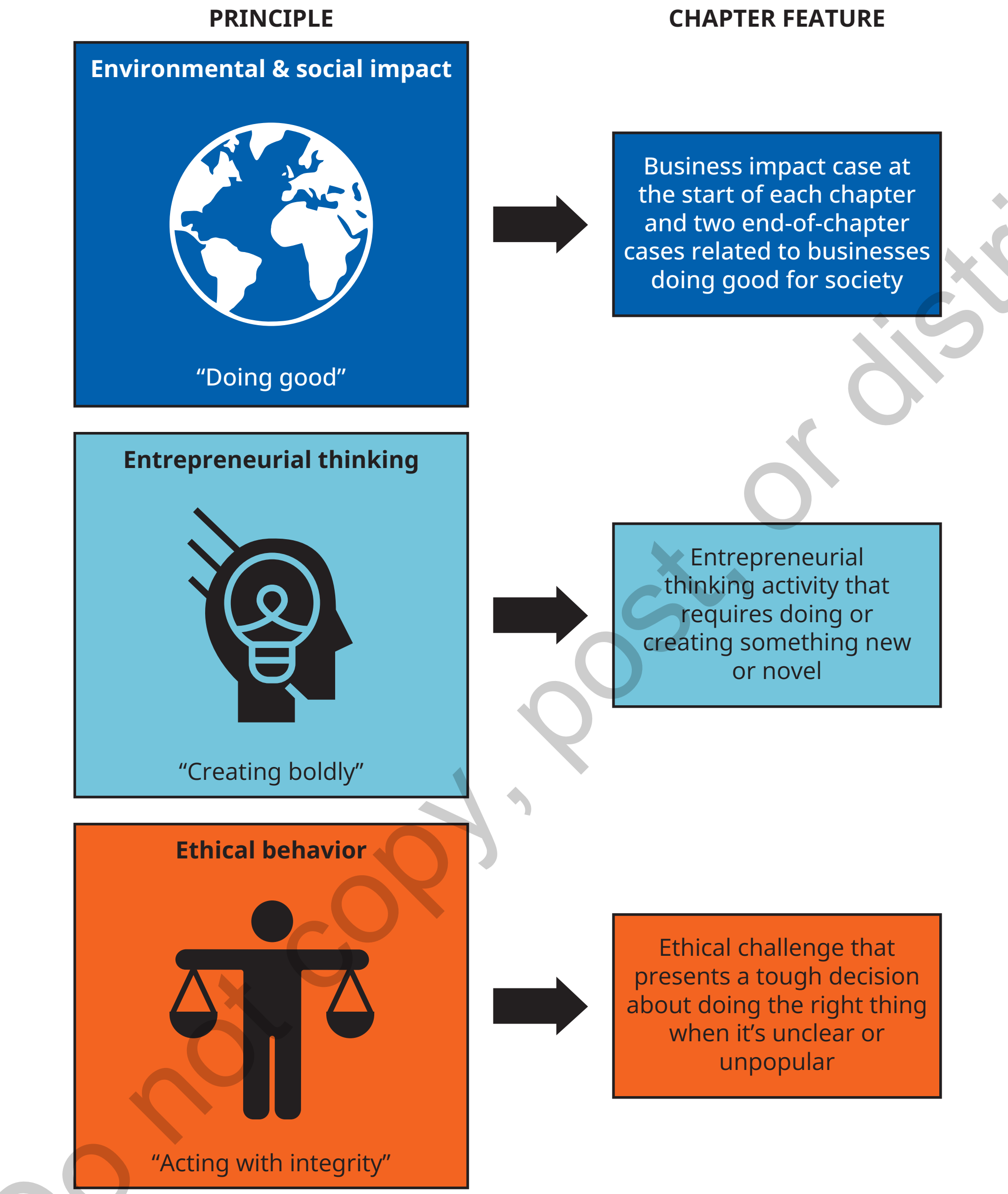
The second principle, **entrepreneurial thinking**, refers to our ability to create boldly, bringing new ideas to life without fear and being courageous enough to try something different, even if it hasn't been done before. Entrepreneurial thinking helps you recognize and act on opportunities, make decisions even with limited information, and stay adaptable and resilient in uncertain and challenging situations.[32] It's not about being an entrepreneur but rather thinking like one.

The third and final principle underlying a business's ability to balance profit and purpose is **ethical behavior**, which prioritizes moral principles and values in decision-making and behavior.[33] At its core, ethical behavior is about acting with integrity—acting in ways that are fair, just, and respectful of others.

Businesses and individuals who consistently act ethically build trust with their stakeholders, which is essential for long-term success and positive impact.

These three foundational principles show up in each chapter of the book. Aligning with the principles are chapter features as depicted in Figure 1.3.

Figure 1.3 ▪ How the Principles Show Up in Each Chapter



Ethical Challenge

Advertising in an Eco-friendly Startup

You are the marketing director at a small startup that produces eco-friendly, reusable products to reduce single-use plastics. Your company prides itself on its environmental impact, striving to balance profit and purpose. Recently, your team launched an aggressive marketing campaign claiming that your products eliminate 90% of household plastic waste. While this claim has resonated with customers and driven sales, you've learned that the research supporting this statistic is incomplete and might be overstated.

Your CEO insists that the claim reflects the company's aspirations and that retracting it could harm the brand's reputation and growth. However, as the marketing director, you feel that the information is misleading. What do you want to do and why?

Critical Thinking Questions

1. Is there a way to stay true to the company's eco-friendly values and still grow the brand without stretching the truth?
2. What do we owe our customers, and how might being upfront actually help us build a stronger brand?
3. You schedule a meeting with the CEO to discuss. What will you say? Create a script.

The Future of Work

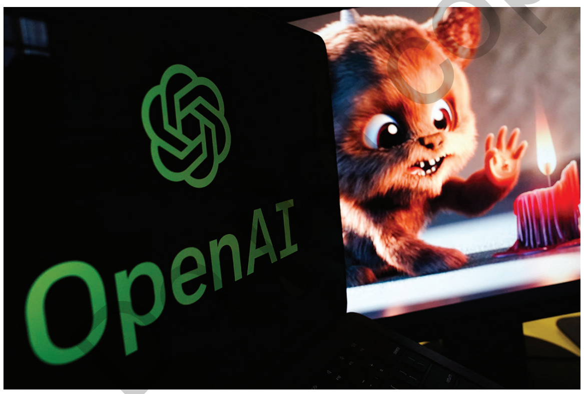
1.5 Examine key trends shaping the future of work.

Career paths are changing. The idea of getting an entry-level job, climbing the corporate ladder, and retiring with a comfortable pension is declining as new generations enter the workforce. The traditional concept of "lifers"—people who start and end their career with the same company—is rare.

There is a lot of speculation on the future of work, but it's very hard to predict the future. According to the World Economic Forum, 44% of workers' skills will be disrupted by 2027 because technology is moving faster than our ability to be trained.[34] In the present, there is some certainty of the changes taking place. First, artificial intelligence is now part of work and has even been dubbed "a virtual co-worker."[35] Second, new skills are required. Third, how and where we work is evolving.

AI as a Virtual Coworker

The rise of machine learning, artificial intelligence, and automation is creating a huge concern for the future of jobs. **Artificial intelligence (AI)** is the capability of a machine to perform tasks that normally require human intelligence. These tasks include things like learning, problem-solving, recognizing patterns, understanding language, and making decisions.[36] Google Maps and ride-sharing apps such as Lyft and Uber all use AI to tackle complex navigation. Generative AI is a type of AI that is trained to create new content such as images, text, music, and videos based on inputted prompts. Large language model ChatGPT, video creation platform Synthesia, and text-to-image model DALL-E 3 are examples of generative AI. **Machine learning** is a branch of AI; it is the science of getting computers to act without being explicitly programmed while also learning and improving with every experience. For example, self-driving cars are a result of machine learning. AI and machine learning are leading us into a new age of automation. According to Goldman Sachs, AI investment is due to reach $200 billion by 2025.[37]



AI can generate realistic photos and videos with a simple prompt.
DREW ANGERER/AFP/via Getty Images

Joanne Chen, general partner at venture capital firm Foundation Capital, said, "I believe we will see a paradigm shift from machines assisting humans to humans assisting machines in the next decade."[38] In other words, AI could become a virtual coworker for everybody in the future across various sectors.

Automation of Routine Tasks

Machines have already replaced the more mundane tasks previously undertaken by humans (think automated self-checkouts in stores) and show no signs of slowing down. Estimates show that AI could disrupt or displace 300 million jobs in the global workforce by 2030.[39] But "displaced" does not mean "replaced." Humans have been working alongside machines for many years. For example, Waymo One, the driverless ride-hailing app, is available to anyone living in the greater Los Angeles area, San Francisco, and Phoenix, Arizona. Riders can hail autonomous robotaxis 24 hours a day, 7 days a week. While the cars themselves operate autonomously, they still rely on human ingenuity and expertise to function in the real world. Self-checkouts may have been introduced in thousands of stores, but there is still a need for checkout assistants to support customers and troubleshoot the machines when they're experiencing problems.[40]

Because AI can automate routine and administrative tasks, there is a risk that some jobs may become obsolete or displaced. To alleviate these concerns, businesses need to invest in upskilling or reskilling the workforce to support employees in adapting to an AI-driven landscape. Automation will also increase the need for new workforce skills, which will require training and retraining, not just in technology but in how we think and approach problems. By acquiring the right skills, the possibilities of harnessing automation and AI for the greater good will become more attainable.

This robot in Wuhai, China, uses AI to inspect a production area of a company.
NurPhoto/via Getty Images

Enhanced Decision-Making

The growing volume of data and information is intensifying the pressure on business leaders to make the right decisions in the workplace. Recent research shows that 85% of business leaders experience decision stress caused by concern over making the wrong decision. Poor decision-making can result in financial and reputational losses. More and more businesses are using AI-powered decision-making tools to help them make informed, speedier decisions, particularly in high-pressure situations. For example, U.S. telecommunications company Verizon uses virtual reality (VR) technology to help call center employees deal with difficult customer calls. The employees engage in VR role-play by swapping with the frustrated customer and learn to make decisions based on empathy and understanding. In the health care industry, AI systems are used to help diagnose health conditions such as breast cancer, in addition to calculating dosages of medication and supporting safer surgeries. Although AI tools lighten the burden of decision-making, they have their limitations. Human users must have the right skills, expertise, and knowledge to optimize these tools to ensure the best outcomes.[41]

Core Skills Needed

The World Economic Forum's (WEF's) 2025 *The Future of Jobs Report* identifies core skills that workers need today and will increasingly need over the next 5 years.[42] These skills fall into five categories: cognitive, interpersonal, self-efficacy, technology, and management.

Cognitive Skills

Cognitive skills are skills related to how you think and are those that help you learn, remember, understand, communicate, and make decisions.[43] The core cognitive skills needed now and in the future are systems thinking, creative thinking, and analytical thinking.

Systems thinking is the skill of seeing how different parts of a system are connected and how they influence one another over time.[44] As a result, problems should be solved by looking at the bigger picture rather than just isolated parts because changes in one area can cause ripple effects in others. For example, this textbook is designed to illustrate five building blocks of modern business and how these blocks connect in order for a business to operate, sell products and services, earn revenue, and generate profits. If an aspect of one block breaks down, the other blocks will suffer. Every business is a system.

Creative thinking is the ability to use existing knowledge in new and meaningful ways.[45] This type of thinking is connected to systems thinking because creative thinking gives us the ability to look at problems or situations in a fresh way, sometimes by connecting unrelated concepts. For example, a group of students working on a final project decides to turn the final presentation into a game to make it more engaging for the audience. That's a new approach for sure.

Finally, **analytical thinking** is the ability to break down complex problems, look at existing information and facts, draw conclusions, and make decisions based on data and logic.[46] Both analytical and creative thinking are needed because the former helps identify and understand the problem, and the latter helps develop innovative solutions. For example, a small business owner is trying to improve one of their products. Using their analytical thinking skills, they examine the data, customer feedback, market trends, and competitor pricing. They analyze which products are performing best and identify a pattern of similar products using eco-friendly packaging. Rather than simply offering similar eco-friendly packaging themselves, their creative thinking kicks in, and the owner comes up with a unique approach—to launch a "zero-waste" product line with reusable containers and a rewards program for returns.

These three forms of thinking do not operate in isolation. Analytical and creative thinking support systems thinking by helping you break down complex systems into parts (analytical) and imagine new ways those parts can connect and interact (creative).

Interpersonal Skills

If cognitive skills are thinking skills, then consider interpersonal skills as people skills. Interpersonal skills, often referred to as soft skills, are used to build relationships and help you work well with others. WEF suggests that there are two critical skills related to working well with others. The first skill is leadership and social influence. Leadership, as you will learn in Chapter 12, is the process of influencing others to work toward a common goal. The ability to influence others is directly related to the second interpersonal skill, empathy and active listening.

Empathy is the ability to recognize and understand another person's feelings, thoughts, and experiences.[47] It's when you put yourself in their shoes and try to understand what they're going through from their point of view. You can only empathize when you listen closely to the other person's experience and have had similar shared experiences. When leaders listen actively, they show others that their thoughts and concerns matter. When they lead with empathy, they build trust and stronger relationships that create a sense of shared understanding and authentic connection.

Consider this example of the most important interpersonal skills in action: A team is falling behind on a project, and tensions are rising. The team leader, Skylar, notices the stress and calls a meeting. Skylar gives everyone a chance to speak openly about their challenges (active listening) and responds with understanding (empathy), acknowledging that he has had similar pressures in the past. Instead of pushing harder, Skylar suggests reshuffling tasks based on each person's strengths and offers support resources. His approach reduces stress, motivates the team to re-engage, and works more collaboratively. Skylar's presence and thoughtful communication earns trust and inspires the team to rally and meet the impending deadline (leadership and social influence).

Self-Efficacy Skills

Self-efficacy is an individual's belief in their own ability to take on challenges or certain types of work. Skills related to self-efficacy include (1) curiosity and lifelong learning; (2) resilience, flexibility, and agility; and (3) motivation and self-awareness. Curiosity and lifelong learning are important today because they help us keep up with rapid changes in technology, adapt to new challenges, and stay relevant in a constantly evolving job market. For example, a marketing professional who stays curious and takes online courses to learn about AI tools can use them to run smarter social media campaigns and stay ahead of competitors who stick to old methods.

When combined as one skill, resiliency, flexibility, and agility refer to the ability to stay strong under pressure, use courage to adjust to changing circumstances, recover from setbacks, and respond quickly to new challenges. Sticking with the marketing professional, if their new social media campaign is not working, they are able to immediately shift direction, adjust their plans, and try something new without getting overwhelmed by the initial failure.

Self-awareness means understanding how you see yourself and how that matches up with how other people see you.[48] For example, if you think you are a good listener and your friends agree, that shows strong self-awareness. But if your friends often feel ignored or misunderstood, this might mean there's a gap between how you see yourself and how others experience you. Self-awareness helps you recognize your strengths and weaknesses, improve how you work with others, and practice honest self-reflection. Self-awareness is linked to our motivation because when we understand what drives us and what challenges we face, we can set clearer goals, stay focused, and push through obstacles with a stronger sense of purpose. When we have purpose, we have motivation. Think about a time you felt really motivated. What were you doing, and how does that reflect what you've learned about yourself? Does it match how others see you too?

Technology Skills

From a broad perspective, technology skills encompass a wide range of abilities and knowledge related to the use, management, and creation of technology. According to the WEF report, a core technology skill is technological literacy. In a business context, **technological literacy** refers to an employee's ability to confidently and effectively use digital tools, systems, and platforms to perform their job, make informed decisions, and adapt to new technologies as business needs evolve. A big part of technological literacy is understanding and using AI and big data.

Throughout this text, we discuss how AI is changing every aspect of the business landscape. AI is changing industries, from helping pharmaceutical companies develop new drugs to helping financial companies catch credit card fraud immediately. But in the general workplace, AI can enhance productivity, decision-making, and efficiency by automating tasks, analyzing data, and supporting human workers across a wide range of functions. It's a personal assistant, and you need to know how to train and use your personal assistant.

Big data refers to the huge amounts of data and information that come into a company every day. Think sales data, website analytics, mobile app usage, social media reviews, likes, views, and so on. So, a skill in big data is the ability to analyze and interpret large data sets to uncover patterns, spot trends, and inform better decision-making. Chapter 18 takes a deeper dive into big data.

Management Skills

As you will learn later in this text, management is the process of working with people and organizational resources to achieve goals efficiently and effectively. The most important managerial skill identified by the WEF report was talent management. Talent management is the attraction, development, and retention of skilled individuals. Notably, it's not just about attracting and retaining top talent: As the workforce rapidly evolves, managers also need to prioritize skill development. At Torani, a company that makes flavored syrups for coffee, upskilling and reskilling employees is part of its success formula. Torani calls it "career mixology" to encourage lifelong learning by assigning employees to new assignments to develop new skills.[49] Torani has developed certification programs that reward factory floor employees with pay raises as they master new roles. The company also encourages back-office staff to explore new positions across different departments, such as transitioning from manufacturing to marketing. All of these efforts are helping Torani employees better prepare for future jobs if and when their existing jobs become obsolete.

Where and How Work Happens

Work today looks very different than it did just a few decades ago. Technology, globalization, and changing worker expectations have transformed not just what we do but where, when, and how we do it. Traditional 9-to-5 jobs are no longer the only option. Let's explore two major trends shaping today's workforce: the rise of the gig economy and the growth of flexible work arrangements.

The Gig Economy

Today, the concept of a career is a bit outdated. Just one generation ago, most employees remained with the same company until retirement. Staying with one company for a long time assumed "a stable and rising income, a steady package of corporate benefits, and a corporate-financed retirement at the end of work."[50] Today's employees can no longer expect the same job security or financial benefits as before.

Instead, many in the workforce today are looking at their lives as a series of temporary work engagements, a series of projects, or "gigs," which has led to the rise of the gig economy. The **gig economy** is a labor market characterized by picking up short-term, flexible, freelance work known as gigs. In the United States, more than 64 million workers support themselves by doing gig work, contributing more than $1.2 trillion to the U.S. economy.[51] Examples of gigs in the gig economy include rideshare driving, food delivery, dog walking or pet sitting, short-term rentals, tutoring, and consulting.

There are three main components of the gig economy: the workers, the companies, and the consumers.

- **The Workers:** There are two categories of gig workers: labor providers and goods providers. Labor providers are the people who perform work or services for other people. Examples of labor providers might include drivers, delivery people, and freelancers such as journalists, graphic designers, and coders. Goods providers are the people who create physical products, such as artists, craftspeople, and clothing makers.
- **The Companies:** Although the concept of gig work isn't new—people have been picking up odd jobs for centuries—the technology platforms that have emerged over the past two decades have been a major force in the growth of the gig economy. Companies like DoorDash, Upwork, Fiverr, Lyft, and TaskRabbit have been instrumental in facilitating direct transactions between consumers and workers, providing flexible schedules for workers, and offering a forum for rating both the workers and consumers.
- **The Consumers:** The gig economy benefits consumers who need a specific service, such as a ride to their workplace or an item to be delivered. Consumers also benefit from shorter wait times, the huge range of products that can be delivered anywhere at any time, lower transaction costs, the frequent updates on time to arrival, and the power to provide instant feedback on a particular product or service. Overall, the gig economy not only increases access to many different types of services but also makes them more affordable and efficient than ever before.

The emergence of the gig economy is not simply driven by platform companies. It's also driven by employees who are dissatisfied with traditional corporate life and who are looking for something more. In 2024, *Forbes* reported high levels of employee satisfaction among gig workers, with two-thirds of gig workers expressing more contentment in their work compared to conventional job roles.[52] Despite satisfying work, quality of life, flexible hours, and more control over their gig portfolio, there can be downsides to gig working. Table 1.2 lists some pros and cons of the gig economy.

Table 1.2 ▪ Gig Economy: Pros and Cons

Pros	Cons
Flexible work schedules	Financial instability
Increased freedom and independence	Lack of benefits (health insurance, paid sick leave, retirement plans)
The autonomy to pick and choose work	Job insecurity
Greater variety of work	Lack of a consistent peer community
Ability to improve skillsets across different industries	No long-term direct career path

Remote and Hybrid Work

Remote and hybrid environments are where work is done across physical and digital spaces. These environments created **flexible work**—any work arrangement where you, as an employee, have more control over when, where, and how you do your job. Thanks to the growth of digital tools and platforms, remote employees no longer need to work from a physical office and have the option of working from home, giving them the flexibility to work from anywhere in the world. Hybrid workers have the opportunity to split their working week between working remotely and from the office. Working from a café, your home, or in an Airbnb somewhere in the world has become the postpandemic norm in many industries.

Additionally, AI-driven applications can provide the necessary resources for employees to complete and even automate tasks. Remote and hybrid workers can make use of AI-driven applications such as virtual coaching through AI-driven chatbots or virtual assistants to enhance career development and stay competitive in the job market. Other applications help manage projects or enhance collaboration. Popular videoconferencing tools such as Zoom, Microsoft Teams, and Webex, as well as messaging apps such as Slack, are now enabled with AI that automatically summarizes conversations and even records who is responsible for which action items. Having AI generate meeting notes, summaries, and future action items frees up more time for employees to focus on more challenging, higher-priority work. Table 1.3 includes a more comprehensive list of how AI is transforming work, with a particular emphasis on remote work. While there are many benefits of AI for remote and hybrid work, it is not without risk. An overreliance on technology could minimize critical thinking and problem-solving skills, and limited human interaction could negatively impact team relationships and company culture.[53]

Table 1.3 ▪ How AI is Transforming Remote Work

Transformation	How AI Helps . . .
Enhanced communication	Real-time translation that breaks down language barriers when working with teams from around the globe
Increased productivity	Automates scheduling, document management, task management, and other administrative tasks
Better customer support	Chatbots can provide assistance 24/7
Efficient project management	Manage tasks and workflows
Advanced videoconferencing	Transcription, translation, and meeting summaries
Build a positive work culture	Increases engagement, more easily recognizes good work, and helps with virtual team-building activities
Amplify creativity	Content creation and design

Source: Adapted from Vander Waal, B. (2024, July 29). *12 Ways AI Is Transforming Remote Work Environments in 2025*. https://brianvanderwaal.com/ways-ai-is-transforming-remote-work

Will remote work continue? The verdict is not quite in on whether remote work will last. Many companies are requiring employees to be back in the office full-time or for a specific number of days per week, and some companies such as Walmart and Amazon have mandated that their remote workforce must now be in the office for 5 days per week. Yet, almost 70% of U.S. employers allow for some type of workplace flexibility that offers employees a greater work–life balance.[54]

In Review

1.1 Define business, discuss its role in generating economic and social value, and identify the most common business types in operation today.

The word *business* has two interpretations. There is *a* business and then there is *doing* business. A *business* is defined as an organization or entity that is engaged in commercial, industrial, or professional activities that produce and/or sell goods or services for the creation of economic *and* social value. *Economic value* relates to the profitability of the business and its ability to generate revenue, pay expenses, and generate positive net income, while *social value* encompasses the positive impact a business can have on society, including issues related to employee diversity, equity, and inclusion, as well as issues related to environmental sustainability and protecting and preserving the planet for future generations. In the United States, there are six types of businesses that are most common: (1) a startup, (2) a small business, (3) a micro business, (4) a medium-sized business or small- to medium-sized business (SME), (5) a multinational corporation, and (6) a nonprofit organization.

1.2 Define key economic principles used in decision-making.

Business success is heavily influenced by *microeconomics*, which analyzes the behavior of individuals, companies, and industries in allocating limited resources. Key concepts include economic resources, market structure, supply and demand, production costs, and opportunity cost. Economic resources are categorized into land, labor, capital, and entrepreneurship, each playing a crucial role in production. *Market structure* varies from perfect competition and monopoly to monopolistic competition and oligopoly. Supply and demand determine prices and resource allocation, with equilibrium achieved when supply equals demand. *Price elasticity of demand* measures how much the quantity demanded of a good or service responds to a change in its price, distinguishing between elastic (luxury goods) and inelastic (essential items) demand. Production costs involve marginal cost and marginal revenue, guiding businesses to maximize profitability. *Opportunity cost* helps businesses evaluate the potential losses from choosing one alternative over another, ensuring efficient resource allocation.

1.3 Explore the five building blocks of modern business.

There are five essential components of business called blocks, which are essential for building and operating a business. These blocks represent the fundamentals of business activity. The five blocks include the product and service offering (provide value to customers), markets and customers (identifying, communicating with, and selling to customers), structure and strategy (organize workflow, create culture, and develop strategies to compete), people inside the business (managing, leading, attracting, and retaining top talent), and performance (metrics to measure and track success and using data to drive decision-making).

1.4 Explain how businesses balance profit and purpose through three foundational principles.

Modern businesses are redefining success by balancing profit with purpose. The 2019 U.S. Business Roundtable statement marked a major shift, as CEOs from leading companies committed to serving all *stakeholders*, not just *shareholders*. This new perspective emphasizes that businesses should create value for customers, employees, communities, and the environment. Three core principles support this approach: *environmental and social impact, entrepreneurial thinking*, and *ethical behavior*. These principles encourage companies to pursue financial success while also making a positive difference in the world. By integrating these principles into their operations, businesses can build trust, foster innovation, and ensure long-term sustainability.

1.5 Examine key trends shaping the future of work.

Several trends are shaping the future of work, impacting how, where, and why work is performed. Some of the most significant trends include the rise of machine learning and artificial intelligence (AI) that has led to the automation of routine tasks and enhanced decision making, basically making generative AI a virtual coworker. As AI and other technologies define business, workers should develop important core skills, divided into five categories: cognitive (systems thinking, creative thinking, analytical thinking), interpersonal (leadership and social influence; empathy and active listening), self-efficacy (curiosity and lifelong learning; resilience, flexibility, and agility; motivation and self-awareness), technology (technological literacy; AI and big data), and management (talent management). The growth of the *gig economy* and flexible work arrangements are also global trends that have led to millions of employees redefining the nature of work by choosing jobs based on their lifestyle.

Key Terms

Analytical thinking
Artificial intelligence (AI)
Business model
Business
Capital
Cognitive skills
Commercial
Competitive environment
Cooperative (co-op)
Creative thinking
Culture
Customers
Demand (economic perspective)
Economic value
Elastic demand
Empathy
Entrepreneurial thinking
Entrepreneurship
Environmental and social impact
Ethical behavior
Flexible work
Gig economy
Growth company
Industrial activities
Inelastic demand
Labor
Land
Machine learning
Macroeconomics
Manager
Marginal cost
Marginal revenue
Market (economic perspective)
Market (marketing perspective)
Market structure
Micro business
Microeconomics
Monopolistic competition
Monopoly
Multinational corporation
Nonprofit organization
Offering
Oligopoly
Operations
Opportunity cost
Organization
Organizational structure
People
Perfect competition
Price elasticity of demand
Price gouging
Professional activities
Profit
Self-awareness
Self-efficacy
Shareholders
Small business
Social value
Soft skills
Stakeholders
Startup
Supply (economic perspective)
Systems thinking
Technological literacy

Business Case Study 1.1: The Wonderful Company—Los Angeles, California

SDG 3: Good Health and Well-Being

Stewart and Lynda Resnick's journey to build The Wonderful Company began in 1978 with a small agricultural investment in California's San Joaquin Valley. Their first major business venture together was the 1979 acquisition of Teleflora, a flower delivery service connecting local florists. The Resnicks saw an opportunity to revolutionize the floral industry by combining technology with personalized service, transforming Teleflora into the world's largest flower-by-wire service. A flower-by-wire service is a system that allows customers to order flowers from a local florist, even if the delivery is in another city or country. The customer's order is sent ("wired") electronically or by phone to a florist near the delivery location, who then prepares and delivers the arrangement.

This early success of the Resnicks' model of connecting producers to consumers would later become the model for their agricultural ventures, leading to today's $5 billion global enterprise that includes popular healthy brands like POM Wonderful pomegranate juice, Wonderful Pistachios, Wonderful Halos mandarins, and FIJI Water. The company also owns a number of vineyards that produce wine, grapes, and new vines. The Wonderful Company has spent nearly 50 years building its portfolio of businesses. Its mission: "To make the world a better and healthier place through our iconic brands, our commitment to the well-being of our employees, and our work in the communities we serve." In addition to its commercial activities, the company has focused on improving education, health care, and economic mobility of its employees and local communities as well as environmental sustainability.

The company's business model enjoys a unique competitive advantage in the food and beverage industry because it controls nearly every step of its products' journey from farm to the end consumer, be it vineyard or store shelf—a strategy known as vertical integration. The Wonderful Company owns vast orchards and processing facilities, creates its own packaging, and manages its marketing and distribution. This approach helps ensure product quality while keeping costs lower than competitors.

But what really sets The Wonderful Company apart is its ability to turn healthy agriculture into consumer brands people love. This approach draws directly from Lynda Resnick's marketing expertise—she started her own advertising agency at age 19 and is renowned for her innovative marketing strategies. A great example of Lynda's marketing genius is when the company saw an opportunity in pomegranates and transformed an ancient fruit into a modern superfood. She led the creation of POM Wonderful's distinctive bottle design and spearheaded provocative marketing campaigns that highlighted the fruit's health benefits. The same marketing prowess helped transform pistachios from a plain commodity nut into Wonderful Pistachios, now one of America's fastest-growing snack brands.

But more than seeking to make a profit, The Wonderful Company focuses on ways to limit its environmental impact and to enhance the societies in which it operates. Environmental sustainability drives innovation across the company's operations. A standout example is its pioneering approach to pest control. The company has developed sophisticated "pheromone disruption" techniques that use natural insect pheromones to prevent harmful pests from mating and damaging crops. This method drastically reduces the need for chemical pesticides while protecting the company's orchards. Beyond pest control, The Wonderful Company has invested heavily in water-efficient farming practices, solar power, and sustainable packaging. Its "Wonderful Innovation" team constantly works on reducing water usage and finding ways to use agricultural waste products.

The company takes its role in society seriously through various social responsibility initiatives. In California's Central Valley, where many of its operations are based, The Wonderful Company has invested over $2 billion in community development. It has built charter schools, health centers, and parks in rural farming communities. The company also provides college scholarships to employees' children and local students, helping to create opportunities in traditionally underserved areas. Similarly, the company has invested heavily in Fiji, ensuring that employees and community members have access to safe housing, drinking water, education opportunities, and health care.

The Wonderful Company shows how a business can succeed by linking farming, innovation, and consumer wellness while addressing community needs. Its approach demonstrates that companies can pursue profit while also creating a positive social impact. The company continues to grow by identifying new opportunities in healthy foods and beverages while maintaining its commitment to product quality, environmental sustainability, and community development.

Critical Thinking Questions

1. What makes The Wonderful Company's products different from those of other food and beverage brands?
2. How does The Wonderful Company help the communities where it operates? How does this impact the company's performance?
3. The Wonderful Company is always looking for new opportunities and investments. What two to three potential new business ventures could fit with its mission and strategy?

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Business Case Study 1.2: Lijjat Papad—Mumbai, India

SDG 10: Reduced Inequalities

This company's slogan embodies its longstanding mission: "a unique organisation of the women, by the women, for the women." Its logo shows a female hand holding a rose with the label, a "Symbol of Women's Strength." From humble beginnings to its present-day global success, Shri Mahila Griha Udyog Lijjat Papad (Lijjat Papad) demonstrates the impact of a business venture devoted to profitability and ethical business practices while combating inequality and social issues in Indian society.

Lijjat Papad started in 1959 when a group of seven women who lived in the same building in South Bombay (now Mumbai) met together and created four packets of papads. Papads, also known as poppadoms, are a crispy, savory snack that accompanies most Indian meals. Their idea was very simple: Take the skills they had learned about cooking from their families to earn money while working at home. The vision of the company was important for many women, who, in the 1950s and 1960s, might not have been formally educated and had limited options for employment in newly independent India. These founding women were only semi-literate but needed a respectable means of earning a living for their families.

In order to pursue their goal, each woman took out a loan of 80 rupees (about U.S. $1 by today's rates) from a social worker named Chhaganlal Karamshi Parekh to buy the ingredients needed to make their papads. The women then attempted to sell their goods to local businesses but found no takers. They were not discouraged and approached Parekh for another loan of 80 rupees for more materials. However, the repayment terms increased from 160 to 200 rupees. The women agreed to the new terms but in return asked Parekh and his social work colleagues to help take the poppadoms to local shopkeepers.

Only one shopkeeper bought the papads, but that same shopkeeper kept buying, and soon the papads became more popular. The business started to flourish. In the first 3 years, not only did sales grow, but word of the cooperative spread across Mumbai, driving the number of member-workers to over 300. In 1962, the company finally created a brand name for its product. "Lijjat," meaning tasty, was selected for its papad business. Afterward, the company name was formalized as Shri Mahila (women) Griha (home) Udyog (Industry) Lijjat (tasty) Papad. In 1966, the company was registered with the government and received recognition as a "village industry," providing access to working capital and certain tax exemptions that helped propel its growth.

Lijjat Papad diversified its product offerings in the 1970s. Since then, its portfolio has grown to include other products such as Appalam, Masala, Gehu Atta, Chapati, SASA Detergent Powder, SASA Detergent Cake (Tikia), and SASA Liquid Detergent. Lijjat Papad now has 83 branches and 27 divisions located across India, with the central office located in Mumbai. Every branch is led by a manager or "Sanchalika," who oversees the production of the branch and ensures quality standards. Branches share in the profit or loss of the members, which helps motivate the members to grow their business skills and to produce high-quality work. The culture of the organization has retained a family feel throughout the decades, with mutual care, concern, and trust among the members. Doing business together in the different branches remains much like working out family issues at home.

The structure and the workforce of Lijjat Papad are as unique as the firm's mission, "by women, for women." The employee-owners are solely women, providing a workforce that did not always have the education or skills to work outside the home an opportunity to earn money to support themselves in a dignified and respectable manner. Thus, Lijjat Papad helps reduce the inequalities for women in India, preventing many families from facing poverty. Further, the owners share equal rights in decision-making that affects the organization—even those in the executive roles do not have more rights than other members. Moreover, the work is equally valued irrespective of role.

More importantly, the organization does not discriminate. Any woman physically able to do the job(s) can work at Lijjat Papad regardless of caste, creed, or color. Men may work at the organization but are not allowed to be owners. The women select which tasks they like best from several options in each business branch depending upon what is made in that location.

What started as seven women in a small village business in 1959 has has grown into a cooperative organization of 45,000 women working across India today. Lijjat Papad enjoys annual revenues of $186 million and uses a third party to export products to the United States, the United Kingdom, France, Germany, Italy, Thailand, Singapore, Hong Kong, the Netherlands, Japan, Canada, Australia, South Africa, and many Middle Eastern countries. Since the late 1990s, the company has earned a number of awards and worldwide recognition for its distinctive business model. It also engages in charitable acts, such as scholarships to members' children and assistance to areas affected by natural disasters.

Critical Thinking Questions

1. How has Lijjat Papad contributed to reducing social and economic inequalities for women in India, and what specific aspects of their approach have been most effective in achieving this goal?
2. Considering Lijjat Papad's growth from a small cooperative to a global enterprise, what strategies did the organization employ to maintain its core values and mission while scaling up? How did these strategies help in sustaining the cooperative's unique culture and ethical business practices?
3. Compare and contrast the recent concepts of gig work and flexible work with the way Lijjat Papad's employee-owners operate. What similarities and differences do you see? What implications can we take away for the future of business?

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Chapter 2

Business Impact, Entrepreneurship, and Ethics

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Learning Objectives

2.1 Distinguish between the growth and fixed mindset and demonstrate how a growth mindset is required in business today.

2.2 Explain the role of business in creating positive, meaningful change in the world.

2.3 Connect effectual reasoning, tolerance for failure, grit, and resiliency to entrepreneurial thinking.

2.4 Explore four decision-making frameworks to navigate ethical challenges across business functions.

Business Impact Case: Rebelstork—Toronto, Canada

SDG 12: Responsible Consumption and Production

Emily Hosie's journey into the baby gear industry began as a personal quest. When she was pregnant with her first child, the search for baby essentials quickly consumed her. But alongside the joy of preparing for her baby's arrival, she unearthed a troubling reality: Returned baby gear, regardless of its condition, was almost always destined for landfills.

"I was shopping and wondering where all the excess inventory ended up," Emily recalls. "I was disheartened to learn that 100 percent of returns in the baby gear space were disposed of in landfills."[1] What's in the landfills? Car seats, strollers, cribs, toys, highchairs, feeding pillows, and baby monitors, just to name a few products sold on Rebelstork.com that are not being wasted in landfills.

The ease of online shopping and the prevalence of return policies, while convenient for consumers, were wreaking havoc on the environment. As a retail veteran with experience at Saks and TJX Companies Canada, Emily recognized the scale of the problem. "Returns are a nightmare for the retail industry," she explains. "It's a crisis."[2]

According to the National Retail Federation, returned merchandise led to a staggering $743 billion in losses for retailers in 2023, not to mention the environmental costs.[3] For baby gear specifically, logistical challenges, limited resources to manage returns, and a lack of quality assurance processes made it almost impossible to repurpose baby gear.

Determined to address this issue, Emily founded Rebelstork in 2020. Based in Toronto, Canada, the company leverages technology to transform waste in the baby gear industry into opportunity. Rebelstork partners with over 2,500 brands, including household names like Target, BabyBjörn, and Million Dollar Baby Co., to process and resell returned merchandise.[4]

What sets Rebelstork apart is its commitment to "recommerce"—a term to describe open-box items that are never used but simply returned. Today, Rebelstork is the largest returns recommerce marketplace for baby equipment in North America.

Rebelstork's operations are powered by a cutting-edge technology system that tracks every product with a unique identifier. This ensures full transparency for the brands and retailers they work with throughout the entire process. At their four warehouse facilities, returned items go through safety inspections and quality checks before being resold at discounts, ranging from 20% to 60% off.

The company intentionally creates value for parents, retailers, and the planet. For parents, they get quality and vetted baby gear at a discount. For retailers, it's a chance to cut costs and embrace sustainability as well as create an additional revenue stream. Normally, if a product was returned, the brand or store lost money. Now, through Rebelstork's recommerce platform, the brands and retailers still make something. And for the planet, it's a step toward reducing waste and promoting responsible consumption. The company prevents an estimated 12 million pounds of baby gear from entering landfills each year[5] and is committed to sustainability and social responsibility.[6] The company participates in the circular economy, ensuring that overstock and returned baby gear find new homes rather than becoming waste.

Through Rebelstork, Emily has shown that innovation isn't just about creating something new; it's about rethinking what already exists and making it better. When Emily was asked what drove her to become an entrepreneur, she said, "My passion for the value channel retail industry. I made a list of the companies I wanted to work for and the leaders I wanted to learn from. There came a time when my perspective shifted from thinking that I was lucky to be working for a company and towards realizing that they were lucky to have me. It was then that I knew I was ready to make the leap and start my own business."[7]

Critical Thinking Questions

1. In what ways does Rebelstork's recommerce model address both economic and environmental challenges in the baby gear industry, and how might this model be applied to other retail sectors?
2. How does the disposal of returned baby gear in landfills contribute to environmental degradation, and what are the potential long-term consequences if this practice continues unchecked?
3. What are the possible ethical challenges that Rebelstork, specifically Emily, may face?

Growth Mindset

2.1 Distinguish between the growth and fixed mindset and demonstrate how a growth mindset is required in business today.

In Chapter 1, we introduced environmental and social impact, entrepreneurial thinking, and ethical behavior as core principles underlying successful businesses today. This chapter dives deeper into each of the principles, but we first need to address the mindset required to implement the principles. In the opening case, Emily Hosie, founder of Rebelstork, created a company that leverages technology to save returned baby gear from landfills, thereby reducing environmental waste, promoting sustainability, and creating value for parents and retailers. What was Emily's mindset that enabled her to start Rebelstork?

Mindset, in general, is a set of beliefs and attitudes that help you make sense of the world around you. Imagine a mindset as an empty, transparent picture frame through which we observe, interpret, and make decisions in our perceived world.[8] However, we each have a different frame, which shapes how we understand and respond to the world around us. Mindset influences our behavior and decision-making.

It's hard to define mindset, so perhaps a quick story will better illustrate. Cory Booker, a U.S. senator for the state of New Jersey, was a law student in 1997. He had a great passion for the city of Newark, which at the time was one of the most economically depressed cities in the country. In his final year of Yale Law School, he began working as a tenants' rights advocate in Newark—even moving to the most economically disadvantaged area of the city called the Central Ward. There he met Virginia Jones, the president of the tenants' association at the Brick Towers—a public housing complex in the Central Ward. Booker expressed to Jones his interest in helping the community. As the story goes, Jones took Booker to the middle of the busy street outside of the Brick Towers. She told him to look around and describe what he saw. Booker looked around and responded with such things as, "I see a playground overgrown with weeds and the equipment is rusty. I see trash on the sides of the road. I see houses with their windows boarded up. I saw a drug deal happening on that corner last night. I see so many people out of work." The list could go on, but Jones stopped Booker and simply said, "You can't help this area." She paused. The petite Jones looked up at the broad-shouldered and tall young Booker and said, "You need to understand that the world outside of you is a reflection of what you have inside of you, and if you're one of those people who only sees darkness, despair, that's all there's ever gonna be."[9]

This is an example of mindset—the mindset Booker had but also the mindset Booker needed. He needed a mindset of vision and belief in himself—the ability to see possibility in the face of hardship and the belief that you can change things and make something better through effort, learning, and persistence. This is what is called the growth mindset, and it can be developed with practice and experience.[10]

Growth Mindset Versus Fixed Mindset

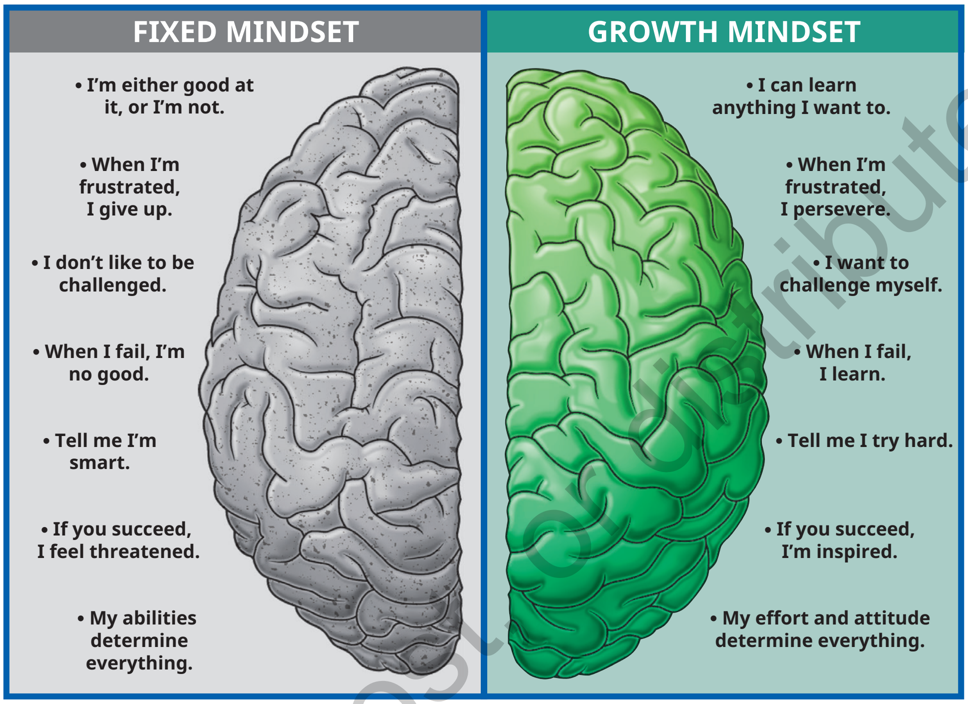
Our mindset is not "set" at all; it can change, evolve, and develop. But it is necessary to understand the type of mindset we have to figure out if we are in need of a mindset change.

Stanford University psychologist Carol Dweck studies mindset and wrote the influential book, *Mindset: The Psychology of Success*, that introduced her theory of growth and fixed mindsets (see Figure 2.1).

With a **fixed mindset**, people believe their talents and abilities are set traits and often avoid challenging situations to maintain some perceived sense of intelligence and competence. In other words, those using a fixed mindset fear failure because they feel others might think less of them. People with a fixed mindset get defensive when they are given constructive feedback and attribute others' success to luck or some sort of unfair advantage. They would rather tell themselves they can't do something than face the prospect of failure or looking stupid.

In contrast, people with a **growth mindset** believe that their abilities can be developed through dedication, effort, and hard work. To them, having brains and talent is just the beginning of a journey of lifelong learning, training, and practice. Individuals with a growth mindset view challenges as opportunities to grow, embrace challenge, and perceive failure as an opportunity to improve performance and learn from their mistakes. This means that they persevere rather than give up. Dweck found that a growth mindset is present in successful athletes, writers, musicians, and businesspeople—in fact, she found that such a mindset exists within anyone who challenges themselves, accepts and adapts with feedback, and puts in the hard work and practice.[11]

Figure 2.1 ▪ Growth Versus Fixed Mindset



Source: Adapted from Brock, A., & Hundley, H. (2017). *The growth mindset playbook: A teacher's guide to promoting student success*. Simon & Schuster.

For example, Emily Hosie demonstrated a growth mindset by taking action to turn a problem into an opportunity by founding a sustainable baby gear company focused on reducing waste. In addition, Michael Jordan is often celebrated as one of the greatest basketball players of all time, but he didn't make his high school varsity basketball team on his first try. Instead of seeing this as a failure, Jordan viewed it as a challenge to improve. He practiced relentlessly, developed his skills, and eventually became a global icon. His journey is an iconic example of a growth mindset: seeing setbacks as opportunities to learn and grow rather than barriers to success.[12]

Michael Jordan, one of the greatest athletes of all time, used a growth mindset to overcome adversity and achieve his goals.

Associated Press/BOB JORDAN

The impact of a fixed or growth mindset uncovered in Dweck's research with middle school students is quite remarkable. She asked fifth graders to complete a series of increasingly difficult puzzle tests. Over time, she realized that the children praised for their hard work and effort on the first test were far more likely to choose the more difficult puzzle the next time—demonstrating a growth mindset. In contrast, the children praised for being smart or intelligent after the first test chose the easy puzzle the second time around—demonstrating a fixed mindset. This led Dweck to conclude that the children who had been praised for being smart wanted to keep their reputation, so they avoided the challenge of a more complex test for fear of losing their "smart" reputation if they didn't do as well as the first time. Yet the children who had been praised for how hard they worked, rather than how smart they were, felt more confident in their abilities to tackle more challenging tests and continue to grow their ability.

Dweck's research suggests that achievement and motivation increase with a growth mindset, but it is incredibly hard to practice a growth mindset all the time. Dweck admits that a pure growth mindset does not exist; everyone is a mixture of both fixed and growth that changes over time and with experience.[13] However, simply knowing the difference between the growth and fixed mindsets can help us make sense of how we are thinking, acting, feeling, responding, and just showing up. How do we know what mindset we are using? By listening to that "voice" you have in your head that speaks up whenever you're about to face a new challenge. The ability to recognize that voice, interpreting what it is telling you, responding to it, and taking action, is the key to developing a growth mindset.

For example, let's say you just landed a new job with the eyeglass company Warby Parker. You are excited by the company because for every pair of eyeglasses the company sells, a pair is distributed to someone in need. However, you will be on a team focusing on designing a new store concept for Warby Parker, and the team lead has put you in charge of developing a social media campaign to generate buzz around the new store concept. Following are some messages you might hear from the "voice" in your head and some responses you might make based on your mindset.[14]

FIXED MINDSET: "OMG social media has destroyed my life. I was always the one with the least number of friends and followers. I should not be the one assigned to this part of the team."

GROWTH MINDSET: **"Given that I didn't use a lot of social media growing up, my perspective may add value to the project because we need to generate buzz for social media influencers but also the average user."**

FIXED MINDSET: "If I fail, I will get fired."

GROWTH MINDSET: **"If I get stuck, I'll ask for help and take initiative to learn new stuff on my own. I'll share my new ideas with colleagues to get early feedback."**

FIXED MINDSET: "Why are they putting me in charge of the social media campaign? I'm the youngest person on the team."

GROWTH MINDSET: **"Wow, what a cool gig! This is going to look great on my résumé having such a responsibility at a young age."**

You might feel different emotions when you read the statements above—the negativity of the fixed mindset statement and the positivity or energy of the growth mindset. Take note of these feelings, because a fixed mindset will limit you in business.

Connecting Growth Mindset to Business Impact, Entrepreneurial Thinking, and Ethical Behavior

A growth mindset means believing you can develop your abilities through effort, learning, and persistence. That belief is powerful, and it connects directly to the three core ideas we explore in this book: making a positive environmental and social impact on the world, thinking like an entrepreneur, and acting in an ethical manner.

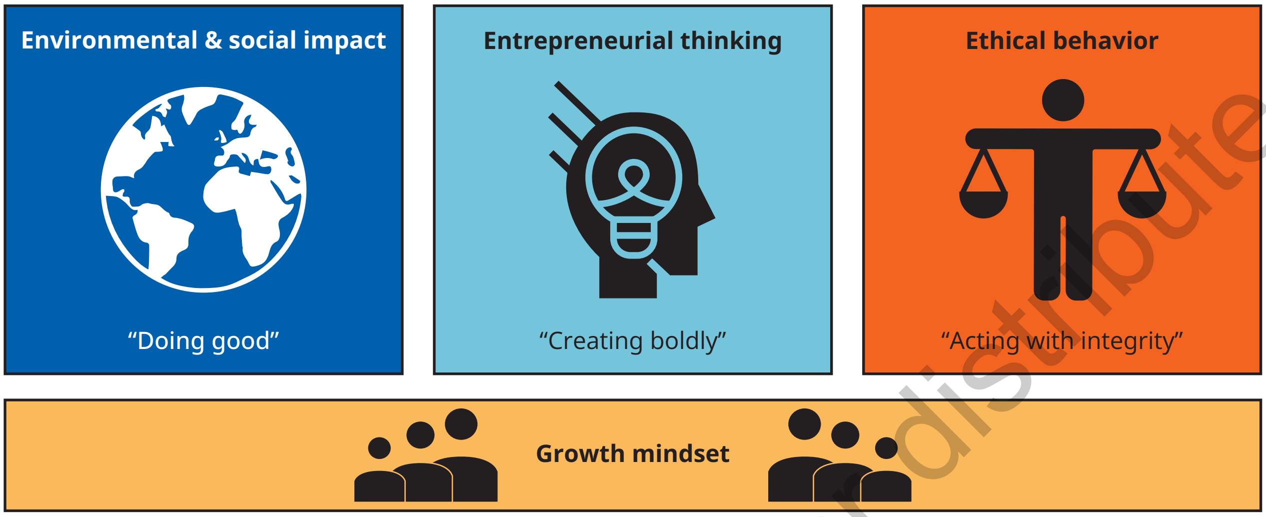
First, when it comes to environmental and social impact, a growth mindset helps people see problems not as roadblocks but as challenges they can learn to solve. If a company faces an issue like too much plastic waste or unequal access to its products, a growth mindset leads them to ask, "How can we do better?" It opens the door to innovation, improvement, and lasting change.

Second, entrepreneurial thinking is all about creating bold ideas, trying new things, and learning from what works and what doesn't. That takes a growth mindset. People who think entrepreneurially don't give up when something fails. Instead, they use feedback to get better and keep moving forward. Without that mindset, most successful businesses today wouldn't exist.

Finally, a growth mindset supports ethical behavior. It helps people take responsibility for their actions, act with integrity, learn from mistakes, and make better decisions over time. Instead of covering up a problem, someone with a growth mindset will face it, fix it, and grow from it. That builds trust and integrity, both of which are essential in business.

In short, a growth mindset helps people and businesses improve and do good in the world, create bold new ideas, and act with integrity to do the right thing even when it's hard. The growth mindset supports the way we approach the core business principles that we first introduced in Chapter 1 (see Figure 2.2).

Figure 2.2 ▪ Growth Mindset Supports Three Business Principles



Principle 1—Environmental and Social Impact

2.2	Explain the role of business in creating positive, meaningful change in the world.

Recall from Chapter 1 that *environmental and social impact* is about creating positive, meaningful change in the world. Today's most successful organizations value social and environmental impacts in addition to profit, something that is called the **triple bottom line**, a framework that measures the success of a business in key areas: people, planet, and profit (or the 3Ps).[15]

People: Every business has a responsibility to take care of its employees and the wider community, including customers, suppliers, and families. Dayforce, an American software company headquartered in Minneapolis, Minnesota, takes care of its employees by providing 17 weeks of paid parental leave and offers flexible scheduling, enabling employees to strike the right work–life balance.[16] Research conducted by Forbes also demonstrates that companies that give back to the community are associated with higher employee retention, increased social bonding, higher rates of job satisfaction, and more motivated employees.[17] Examples of giving back to the community could be contributing time, skills, or resources to make a positive impact on the people in the community around the business. This could also involve giving employees work time to volunteer for local organizations and supporting social causes aligned with the company.

Planet: Businesses also have a responsibility toward maintaining the health of our planet. Many organizations can do this by embracing the circular economy. A **circular economy** is a system designed to minimize waste, maximize resource efficiency, and promote sustainability by keeping materials, products, and resources in use for as long as possible.[18] In practice, a circular economy means designing products that are easy to repair or recycle, using renewable energy in production, and creating systems for consumers to return or recycle products at the end of their use. Rebelstork participates in the circular economy by reselling returned baby products, helping to minimize waste and promote sustainability.

The idea of participating in the circular economy is quickly impacting fast fashion. Fast fashion is viewed as harming the planet because parts of the clothing industry focus on quickly producing large volumes of trendy, inexpensive clothing to meet rapidly changing consumer demands. This mass production increases carbon emissions and produces excess waste because fast fashion is disposable and overproduced. H&M is a global retailer known for fast fashion, but the company is working to help rather than harm the environment. Today they are participating in the circular economy and have implemented several initiatives that demonstrate a commitment to waste reduction and sustainability. For instance, H&M

operates a garment collection program where customers can return unwanted or used clothing to be recycled, reworn, or repurposed. It also provides a clothing rental service, resells preloved clothing online, and offers repair studios to customers in certain stores.[19] Not only is H&M committed to the circular economy for environmental reasons, but it also believes that a resale and repair business model has the potential to double sales and revenue, thereby making it a company that does good and makes a profit.[20]

Profit: Making money is not just good for a business; in fact, it's necessary. A business that doesn't make money can't survive, grow, or make a lasting impact. Profit allows a business to keep its doors open, pay its employees, invest in new ideas, and serve its customers. It also gives the business the resources to do more good in the world, like reducing waste, supporting communities, and creating products that improve lives.

Some people think companies have to choose between making money and doing the right thing. But that's a false choice. Many of today's most successful businesses are proving that you can do both. They're making strong profits and making a difference for people and the planet. In fact, making a profit is what gives them the power to make that difference.

Profit is not the opposite of purpose. Profit is what fuels it. In fact, the modern view of business suggests that the highest-performing companies do good for society and the planet while also making money. These are known as **dual-purpose companies,** businesses that merge profit with purpose. Though Patagonia (Chapter 1) always emerges at the top of the list of dual-purpose companies, many other examples exist. Popular shoe brand TOMS pioneered the buy-one-give-one (BOGO) practice, where a pair of shoes was donated to someone in need with every pair sold. In recent years, TOMS has moved away from this model and now donates one-third of its profits to grassroots organizations. Given that TOMS pioneered BOGO, the shift was surprising, but Chief Impact and Strategy Office Amy Smith said, "This new giving model allows us to support the grassroots organizations doing the work in their communities and the flexibility to respond to the most pressing issues affecting those communities."[21]

TOMS pioneered the buy-one-give-one charitable model and now donates one-third of its profits to grassroots organizations.

Richard Levine/Alamy Stock Photo

United Nations Sustainable Development Goals (SDGs)

We can't talk about environmental and social impact without discussing the United Nations (UN) Sustainable Development Goals (SDGs). In 2015, 193 nations adopted the UN **Sustainable Development Goals (SDGs)**, which is a blueprint for achieving a thriving, inclusive, and sustainable society by 2030. This involves ending poverty, protecting the planet, and promoting peace. There are 17 goals created to transform our world (see Figure 2.3). The goals address major issues, including climate change, chronic health conditions, and aging populations, to name just a few. Every business can do well (earn a profit) and do good (benefit society) by aligning business activities, products sold, manufacturing processes, human resources, and overall operations in support of the SDGs. The UN claims that integrating the SDGs into business practice can unlock approximately $12 trillion in market opportunities and 380 million jobs by 2030 across four key economic sectors: food and agriculture, cities, energy and materials, and health and well-being.[22] AI also has the potential to accelerate progress toward the achievement of SDGs: It is already being used to track the progress of reforestation, to predict war and conflict, and to devise smarter traffic signals to minimize pollution and congestion in cities.[23] Figure 2.3 shows how businesses can connect to the 17 goals.

There has been some hopeful progress toward achieving the goals. According to the UN's 2024 Sustainable Development Goals Report, over the past 30 years, better access to treatment has helped prevent 20.8 million deaths from AIDS. In most parts of the world, girls are now completing school at the same rate as boys, or even doing better, across all education levels. Today, about two thirds of the global population (5.4 billion people) have Internet access, at a time when technology, including AI, is rapidly changing how people work and find jobs.[24] Although there have been some efforts made toward meeting the SDGs, there is much more work to be done. The 2024 report also warned that only 17% of SDG targets are on track, while others show minimal progress or have stalled altogether.

Figure 2.3 ▪ The UN Sustainable Development Goals

Goal Number	Name of the Goal	Businesses can…
1 NO POVERTY	No Poverty	Drive efforts to reduce poverty by promoting economic opportunities and social inclusion for all.
2 ZERO HUNGER	Zero Hunger	Encourage innovative solutions to ensure food security and sustainable agriculture.
3 GOOD HEALTH AND WELL-BEING	Good Health and Well-Being	Prioritize health initiatives and well-being to ensure healthy lives for all.
4 QUALITY EDUCATION	Quality Education	Value education as a tool for empowerment and sustainable development.
5 GENDER EQUALITY	Gender Equality	Support actions that promote gender equality and empower women and girls.
6 CLEAN WATER AND SANITATION	Clean Water and Sanitation	Advocate for sustainable management of water resources.
7 AFFORDABLE AND CLEAN ENERGY	Affordable and Clean Energy	Drive the pursuit of sustainable energy solutions that are accessible to everyone.
8 DECENT WORK AND ECONOMIC GROWTH	Decent Work and Economic Growth	Promote inclusive and sustainable economic growth and decent work for all.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Industry, Innovation, and Infrastructure	Foster innovation and resilient infrastructure development.
10 REDUCED INEQUALITIES	Reduced Inequalities	Work towards reducing inequalities within and among countries.
11 SUSTAINABLE CITIES AND COMMUNITIES	Sustainable Cities and Communities	Support the creation of inclusive, safe, resilient, and sustainable urban environments.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Responsible Consumption and Production	Encourage sustainable consumption and production patterns.
13 CLIMATE ACTION	Climate Action	Drive urgent action to combat climate change and its impacts.
14 LIFE BELOW WATER	Life Below Water	Promote the conservation and sustainable use of oceans, seas, and marine resources.
15 LIFE ON LAND	Life on Land	Protect, restore, and promote sustainable use of terrestrial ecosystems.
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Peace, Justice, and Strong Institutions	Support the development of peaceful, just, and inclusive societies.
17 PARTNERSHIPS FOR THE GOALS	Partnerships for the Goals	Emphasize the importance of global partnerships to achieve sustainable development.

The effects of the COVID-19 pandemic, growing geopolitical tensions, and rising climate change chaos have hindered SDG progress.[25] There is also a disparity between the degree of engagement with the SDGs by some global business sectors. For instance, a recent study showed that Japanese, French, German, and Britain corporations are more advanced in the SDGs' adoption compared to the United States.[26] The study further found that IT companies had the highest engagement with the goals, and health care companies had the lowest engagement.

The UN states that more commitment is essential for achieving sustainable development by 2030. According to Li Junhua, the United Nations Under-Secretary-General for Economic and Social Affairs, "The time for words has passed. . . . It is still possible to create a better, more sustainable and more inclusive world for all by 2030. But the clock is running out. We must act now, and act boldly."[27]

Environmental, Social, and Governance Framework (ESG)

Environmental, social, and governance (ESG) are three key areas businesses consider when evaluating their broader impact on the world and making responsible decisions. ESG has become an essential framework for understanding how companies create long-term value, not just for shareholders but also for employees, customers, communities, and the planet.[28]

- **Environmental criteria** examine how a business affects the planet. This includes energy use, waste, pollution, resource conservation, and efforts to address climate change.
- **Social criteria** focus on how a company treats people. This includes employee relations, customer satisfaction, community engagement, and human rights in the supply chain (e.g., suppliers, manufacturers, vendors, retailers).
- **Governance** refers to how a company is run. This includes examining how a company is led and whether it acts ethically, follows the law, manages risk, and stays accountable to stakeholders.

Instead of measuring success by financial performance alone, ESG helps assess how responsibly a business operates. Companies use ESG criteria to track their environmental footprint, evaluate social practices, and ensure strong, ethical governance. By doing so, they not only reduce risks but also build trust and stand out in competitive markets.[29]

ESG has become a growing focus for investors, consumers, and regulators. Many investment firms now consider ESG performance when deciding where to allocate capital, believing that companies with strong ESG practices are more likely to be innovative, resilient, and future-ready. Additionally, research shows that most consumers and employees care deeply about a company's ESG. In a PwC survey of 5,000 consumers across Europe and the United States, 83% said companies should play a role in shaping ESG best practices. Among 1,250 employees surveyed, 76% said they prefer to work for or support companies that align with their social and environmental values.[30] For many, ESG isn't just a formality; it's a strategic priority for businesses that want to stay competitive and build lasting relationships with customers and employees.[31]

To support these decisions, independent organizations provide ESG ratings. Major rating agencies include MSCI, which assigns letter grades from AAA (leader) to CCC (laggard); Sustainalytics, which scores companies by how much ESG risk they face; and ISS ESG, which assesses sustainability and governance practices. Others, like S&P Global, LSEG Data and Analytics, and Bloomberg, also gather and report ESG data. Since each agency uses different metrics and methods, companies may receive varying scores, but the trend is clear: Strong ESG performance is increasingly viewed as a key indicator of responsible, sustainable business. Table 2.1 highlights the companies in the United States and Canada that are in the Top Global 50 of ESG companies in 2025 according to Sustainalytics.

Table 2.1 ▪ Highest Rated ESG Companies, United States and Canada, 2025

Company	Industry	ESG Highlights
Avnet (U.S.)	Electronics Distribution	Work to reduce pollution, train employees on ethics, and support global goals like clean energy and responsible production.
Hasbro (U.S.)	Toys & Entertainment	Reduce greenhouse gas emissions, promote women in leadership, and support millions of people through community programs.

(Continued)

Table 2.1 ▪ Highest Rated ESG Companies, United States and Canada, 2025 (*Continued*)

Company	Industry	ESG Highlights
Inter-American Development Bank (U.S.)	Development Finance	Fund projects that fight climate change, track their carbon footprint, and follow global rules for sustainability reporting.
Topaz Energy (Canada)	Oil & Gas	One of the cleanest and most responsible companies in their industry, with strong leadership and clear reporting on their impact.
Triple Flag Precious Metals (Canada)	Mining	Carbon neutral since day one, support science-based climate goals, and invest in communities that need help.
Wheaton Precious Metals (Canada)	Mining	Top-rated for sustainability, check every new project for environmental and social impact, and have donated millions to local communities.

Source: Sustainalytics.com. (2025). *Top-Rated Companies*. https://www.sustainalytics.com/corporate-solutions/esg-solutions/top-rated-companies

Let's look at what Hasbro is doing to earn a high ESG rating.[32] Environmentally, Hasbro has taken major steps to reduce its carbon footprint by setting science-based emissions targets and eliminating plastic from its packaging. It was also the first toy company to launch a nationwide toy recycling program, helping to reduce landfill waste. On the social side, Hasbro emphasizes employee engagement, with a large percentage of employees participating in volunteer work each year and donates almost 1 million toys each year. The company also promotes diversity, with strong female representation on its board and efforts dedicated to creating a welcoming and inclusive workplace culture. In terms of governance, Hasbro trains all suppliers through its Ethical Sourcing Academy to ensure fair labor practices and upholds strong data privacy and cybersecurity measures. Its ESG efforts are overseen at the highest levels of leadership and regularly evaluated to stay aligned with stakeholder priorities. These actions reflect why Hasbro continues to earn recognition for its ESG performance.

The increased focus of businesses working toward high ESG ratings or connecting to the SDGs is not without criticism. One of the biggest criticisms has been that companies are using these impact areas as public relations moves to improve their reputation but with misleading information.[33] Such misleading tactics are called **greenwashing**, the practice of companies or organizations misleading consumers into believing they are more environmentally friendly or sustainable than they actually are.[34] This often involves using vague or unverified terms like "eco-friendly" or "natural," making false claims, or highlighting one small green initiative while ignoring larger environmental harms. For example, a company might promote its recyclable packaging to appear sustainable, even though its manufacturing process causes significant pollution. Greenwashing is essentially a marketing tactic that masks harmful practices with feel-good messaging. It can erode public trust and make it harder for consumers to identify truly responsible companies.

A recent report by Environmental Resources Management (ERM) found that 68% of business leaders in the United States admitted their companies have engaged in greenwashing, and half of the claims about positive economic impact were found to be unreliable.[35] ERM suggests that one way to fight greenwashing is by using AI with human expertise. AI can quickly scan for patterns in language or spot unusual claims, while people can bring context and deeper understanding to the analysis. Together, this approach can help build (or rebuild) trust in what companies are saying and doing.

As more companies are found guilty of greenwashing, investors, employees, and others may lose trust that companies are indeed committed to environmental and social impact.

Principle 2—Entrepreneurial Thinking

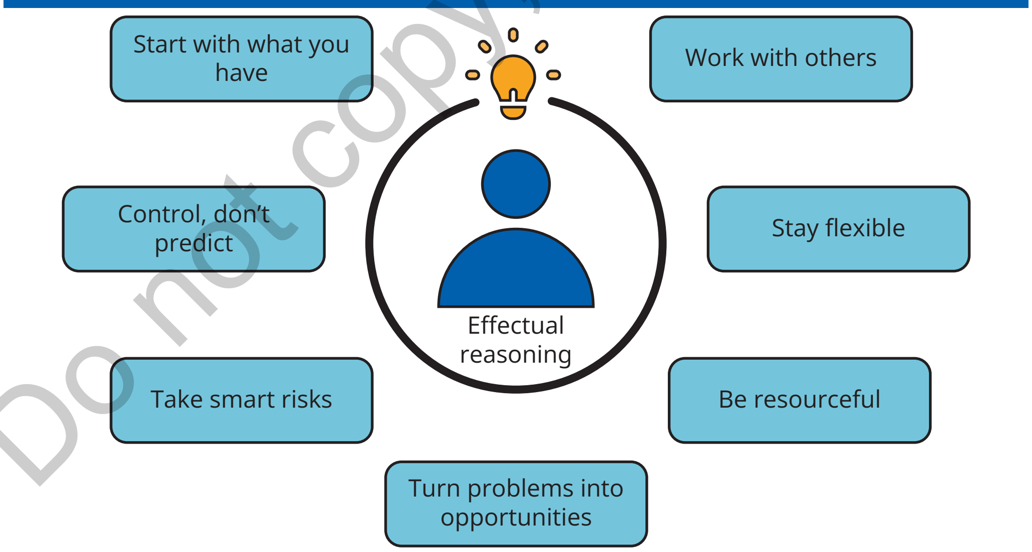
2.3 Connect effectual reasoning, tolerance for failure, grit, and resiliency to entrepreneurial thinking.

Entrepreneurial thinking, as defined in Chapter 1, refers to our ability to create boldly, bringing new ideas to life without fear and being courageous enough to try something different, even if it hasn't been done before. Entrepreneurial thinking helps you recognize and act on opportunities, make decisions even with limited information, and stay adaptable and resilient in uncertain and challenging situations.[36] It's not about being an entrepreneur but rather thinking like one, and studies have confirmed that individuals can learn to think more entrepreneurially over time. To build a capacity to think like an entrepreneur, it's important to practice effectual reasoning, get more comfortable with failure, and develop grit and resiliency. Let's break these practices down in greater detail.

Effectual Reasoning

Pioneering entrepreneurship researcher Saras Sarasvathy studied **serial entrepreneurs**, those who start and run multiple businesses either simultaneously or consecutively. From her research, we learned that entrepreneurs exhibit a particular way of thinking called **effectual reasoning** when they are starting something new under ambiguous or uncertain conditions.[37] Instead of beginning with a clear goal and figuring out how to get there (which is called causal reasoning), effectual thinkers begin with what they already have, like their skills, resources, and connections, and build from there. Effectual reasoning emphasizes flexibility, creativity, continuous learning, adaptability, and taking action with incomplete information or inadequate resources.[38] Based on Sarasvathy's cutting-edge research, entrepreneurial thinking starts with understanding seven elements of effectual reasoning (Figure 2.4).

Figure 2.4 ▪ Elements of Effectual Reasoning



Let's explore how shapewear company Spanx, known for its body-smoothing undergarments and leggings, aligns with each element. Founded by entrepreneur Sara Blakely, Spanx became a household name by offering innovative products that helped people feel more confident in their clothing.[39]

1. **Start With What You Have:** Instead of waiting for the "perfect" idea or resources, focus on what you already know, your skills, and who you know (like your friends, professors, or network). Blakely may have started out with a strong belief in her idea, but she had very few resources to begin with or any formal background in fashion or business. However, Blakely did have experience in sales and marketing, and she was able to draw on those skills to successfully pitch her product to potential manufacturers and retailers.
2. **Control, Don't Predict:** You don't need to know exactly what the future holds. Focus on what you can control now and build from there. Rather than trying to predict how the fashion industry would respond to her shapewear product, Blakely focused on creating a solution to a personal problem by designing a unique, innovative product.
3. **Take Smart Risks:** Don't gamble everything on one big idea. Focus on what you're comfortable losing, whether that's time, money, or effort, and use that to try new things. Blakely invested $5,000 into Spanx, which was all she could afford to lose. She took small, calculated risks until she was in a position to really grow the brand.
4. **Work With Others:** Share your ideas with classmates, teammates, or potential customers. Collaborating with others makes your ideas stronger and spreads the risk. Blakely formed partnerships with manufacturers and retailers such as Neiman Marcus and Target in the early stages of her business. Spanx has also partnered with Delta Air Lines, QVC, and Disney to promote its line of products for adults and children.
5. **Stay Flexible:** Be ready to change your approach if something doesn't work or if a better opportunity comes along. Being adaptable is key. Blakely used early feedback from customers to adapt the design of her products, refining them to better suit their needs.
6. **Be Resourceful:** Use what's around you in creative ways. For example, turn a class project into a prototype or use campus resources to launch your idea. A good example of Blakely's resourcefulness was sending Spanx samples to Oprah Winfrey's team. Spanx was then featured on Oprah's show in her "Favorite Things" segment, and the exposure led to huge demand.
7. **Turn Problems Into Opportunities:** When something unexpected happens, don't panic. Instead, ask, "How can I use this to my advantage?" Surprises can lead to new ideas. In the early stages, Blakely faced multiple rejections from manufacturers and retailers who didn't believe there was a market for shapewear. She turned these challenges into opportunities by pitching the product herself through cold calls, showing up in person, and relentlessly scheduling meetings. Through her persistence and unwillingness to accept rejection, she was able to cement long-lasting business relationships.

Sara Blakely, the founder of Spanx, embodies entrepreneurial thinking.

ZUMA Press Inc./Alamy Stock Photo

Tolerance for Failure

Inherent in anything related to entrepreneurial thinking is the possibility and likelihood of failing. But with a growth mindset underpinning entrepreneurial thinking, we can accept failure, both small and large, as learning moments signaling that we might need to go in a different direction. We all fail at one time or another, but entrepreneurs have an expectation of failure. They look at failure as a learning opportunity and try again, but in a better or newer way.

As humans, we also have some level of fear of failure. By definition, **fear of failure** is the apprehension or anxiety about making mistakes or not meeting expectations, which can lead to avoidance of challenges, missed opportunities, or a reluctance to take risks. It often stems from a desire for perfection, fear of judgment, or concern about negative consequences, and it can hinder personal growth and achievement. In other words, fear of failure can prevent us from taking action in entrepreneurial ways, to be innovative, creative, and boundary pushing. Fear of failure is an impediment to entrepreneurial thinking and a major part of the fixed mindset we talked about earlier. Fear of failure is multifaceted. Table 2.2 illustrates five fears connected to our overall fear of failure.

Table 2.2 ▪ Five Fears of Fear of Failure

Fear	Example
Fear of experiencing shame and embarrassment	"When I am failing, it is embarrassing if others are there to see it."
Fear of devaluing one's self-esteem	"When I am failing, it is often because I am not smart enough to perform successfully."
Fear of having an uncertain future	"When I am failing, my future seems uncertain."
Fear of important others losing interest	"When I am not succeeding, people are less interested in me."
Fear of upsetting important others	"When I am failing, I lose the trust of people who are important to me."

Sources: Wilt, K. M. (2016). The role of fear of failure in competitive anxiety and the mediating role of 2 x 2 achievement goals in female high school and collegiate runners. *Ithaca College Digital Commons.* https://digitalcommons.ithaca.edu/cgi/viewcontent.cgi?article=1318&context=ic_theses; Conroy, D. E. (2001). Progress in the development of a multidimensional measure of fear of failure: The Performance Failure Appraisal Inventory (PFAI). *Anxiety, Stress and Coping, 14*(4), 431–452.

Fear of failure is not necessarily a bad thing. It's twofold—both positive and negative. The positive side of fear of failure in business is that it can actually push you to do better. When used the right way, this fear can:

- **Motivate You to Prepare:** It makes you take the time to plan, research, and think things through so you're ready for challenges.
- **Spark Creativity:** Fear of failing can lead you to come up with new ideas or different ways of solving problems.
- **Encourage Learning:** If something doesn't work out, you're more likely to reflect on what went wrong, learn from it, and do better next time.
- **Help You Focus:** It can keep you sharp and focused on what's important to reach your goals.
- **Build Resilience:** Facing your fear and pushing through it helps you become more confident and persistent in the long run.

So, while fear of failure can feel intimidating, it can also drive you to prepare, grow, and find creative solutions, which are all key to developing entrepreneurial thinking.

The downside of fear of failure in business is that it can really hold you back and make it harder to succeed. Here's how:

- **Avoiding Risks:** Being scared of failing might make you avoid taking chances, even if those risks could lead to something great.
- **Overthinking Everything:** You might spend too much time worrying about mistakes, which can slow you down and make it hard to move forward.
- **Killing Creativity:** Fear of failing can make you play it safe and stop you from trying new ideas or thinking outside the box.
- **Losing Confidence:** Always being afraid of messing up can make you doubt yourself and your ability to make good decisions.
- **Burning Out:** Constantly stressing about failure can lead to overworking, which might leave you exhausted and less productive.

Basically, fear of failure can either hold you back or motivate you. What matters most is how you manage and respond to that fear. Dr. Martin Luther King Jr. has been credited for saying, "You don't have to see the whole staircase, just take the first step." It's a powerful reminder that action starts small, and when you take small actions, any failures encountered will also be small. Clarity comes with making progress through action.

Developing Grit

Grit is the quality that enables people to work hard and sustain interest in their long-term goals. Grit is a result of our perseverance to stick to long-term commitments and goals. Developing grit is also a good way to overcome some elements of a fear of failure and support your capacity to think entrepreneurially.

The concept of grit was developed by Angela Lee Duckworth, a psychologist at the University of Pennsylvania. Through her research, Duckworth discovered that people with higher levels of grit were more effective and achieved more than people with lower levels of grit.[40] Duckworth's research on grit connects to the growth and fixed mindset, which we explored earlier. People with a growth mindset tend to have higher levels of grit, which includes the following attributes[41]:

- **Courage:** Understanding that failure is part of the learning process rather than something to fear takes courage.
- **Conscientiousness:** Being conscientious means working tirelessly in the face of challenges and toward the achievement of long-term goals.
- **Perseverance:** Committing to long-term goals through practice and pushing through fear of failure requires high levels of perseverance.
- **Excellence:** Striving for excellence means committing to activities and highlighting opportunities that enhance skills and prioritize improvement over perfection.
- **Resilience:** Having the strength to recover from failure and overcome obstacles to persevere toward the achievement of long-term goals. Gritty people believe "everything will be all right in the end, and if it is not all right, it is not the end."

Building Resilience

Let's talk more about resilience because it goes beyond being a part of grit. The capacity to think entrepreneurially requires **resilience** to manage through stress and uncertainty or even thrive under such conditions.[42] People often use the words *resilience* and *grit* as if they mean the same thing, but they are actually different. Resilience as noted above is necessary for grit, but resilience alone is the ability to bounce back after something difficult happens—like failing a test, losing a job, or dealing with a personal setback. It's about recovering and moving forward and developing coping strategies when faced with uncertainty.[43] Grit, on the other hand, is about sticking with something over a long period of time, even when it's hard or boring. It's the determination to keep going toward a big goal, like graduating from college or starting a business, even when progress is slow. When someone faces failure or stress, resilience helps them get back on their feet. Grit helps them stay on the path in the first place.[44] Table 2.3 lists four factors that contribute to building resilience in adverse situations.

Table 2.3 ▪ Developing Resilience

Resilience Factors	Why It Matters
1. Emotional Factors	How we feel matters. Sometimes we can't help but feel stressed and overwhelmed, but going into a situation with a positive emotional state can help build your resilience to adversity in the moment.
2. Cognitive Factors	If we can't see the opportunity in the challenge or believe that we have the ability and coping strategies to meet the challenge and solve the problem, resilience will be hard. Ongoing learning and education are important as well. Learning new methods and seeing how others overcome failure and challenges can help you develop your resilience.
3. Prior Experience	Because resilience can be developed, every adverse experience we have and overcome contributes to our resilience "muscle." Both previous business failures and general life hardships can help build future resilience.
4. Social Factors	Networks, family, founding team, and even a tight-knit community can all build a safety net that helps being resilient seem easier. Having strong social connections to go to for support is a way to build your resilience, which is why entrepreneurs often start businesses with a partner or team.

Source: These factors are based on a research review conducted by Ahmed, A. E., Ucbasaran, D., Cacciotti, G., & Williams, T. A. (2022). Integrating psychological resilience, stress, and coping in entrepreneurship: A critical review and research agenda. *Entrepreneurship Theory and Practice, 46*(3), 497–538.

Entrepreneurial Thinking Activity

Supporting the UN Sustainable Development Goals Through Consumer Choices

For this activity, begin by identifying a product that you frequently purchase—whether at a grocery store, clothing store, or online. Next, go shopping for this product, but rather than buying your usual product, identify a replacement that better aligns with one of the UN Sustainable Development Goals (SDGs). Start by identifying a sustainability goal that resonates with you, such as reducing waste, supporting renewable energy, or promoting responsible consumption.

For example, this might mean selecting a product with eco-friendly packaging, choosing a brand that supports fair trade, or buying locally sourced goods. Take a moment to research the product or brand to ensure its alignment with the SDG.

Critical Thinking Questions

1. How does the new product you selected compare to your usual purchase in terms of environmental impact?
2. What are the potential long-term benefits and challenges of consistently choosing products that align with the UN SDGs?
3. How might increased demand for sustainable products encourage companies to adopt more environmentally friendly practices?

Principle 3—Ethical Behavior

2.4 Explore four decision-making frameworks to navigate ethical challenges across business functions.

Ethics are the moral principles that guide how people decide what is right and wrong. These principles shape our behavior in everyday life, from how we treat others to how we handle responsibility. At its core, ethical behavior is about acting with integrity—acting in ways that are fair, just, and respectful of others. Businesses and the people who operate them, who consistently act ethically, build trust with their stakeholders, which is essential for long-term success and positive impact. Individuals acting ethically and with integrity do not just follow the rules; they think carefully about how their actions affect others and strive to do what's morally right, even when it's hard. Table 2.4 highlights the most important elements of ethical behavior and shows how it can shape your reputation, affect how well you work with others, and even impact your future career success.

Table 2.4 ▪ Elements of Ethical Behavior

Element (the what)	Description (the how)
Integrity	Being honest and sticking to your values, even when it's difficult
Accountability	Owning up to your actions and their consequences, whether good or bad
Fairness	Treating others equally and not playing favorites or discriminating
Respect	Appreciating the ideas and contributions of others
Transparency	Being open and truthful about your intentions and actions
Compassion	Caring for, understanding, and supporting other people—like co workers, customers, and those in the community
Law-abiding	Following and enforcing all local, state, and federal laws

The question of right versus wrong is not absolute; it's not as simple as red means stop and green means go. There are so many shades of colors in between. Because what is right or wrong is often unclear, ethical dilemmas abound in business. An **ethical dilemma** is when you're stuck between two or more choices, each with its own set of moral principles, and none of the options are entirely right or wrong.[45] It's like being in a situation where you have to choose between telling the truth and potentially hurting someone's feelings. For example, an entrepreneur can keep costs down by manufacturing their new, hip T-shirts in a developing country. But they quickly learn that the T-shirts are being manufactured in a facility that is violating human rights—young women below the age of 15 are sewing patches on the T-shirts. The entrepreneur is under pressure to grow the business by cutting costs and earning more profit. What's the right call? Should the entrepreneur do everything possible to keep the business alive? Should the entrepreneur feel responsible for human rights violations? If the entrepreneur doesn't go with this manufacturer, will they need to fire their employees in the United States to cut costs, given manufacturing costs will be too high? The list of questions can go on, but the answer is not simple. The complexity of business is peppered with many such ethical dilemmas, some more difficult than others to handle. And every chapter of this book will pose to you one of these dilemmas (in the form of an ethical challenge) so you can try to feel what it's like to be in these situations and reflect on what you would do.

Ethical Challenges Across Major Business Functions

Ethical challenges can arise in every major business function, and addressing them thoughtfully is part of responsible decision-making. Though certainly not an exhaustive list, Table 2.5 offers the most common ethical challenges across the major business functions discussed in this textbook. We discuss each in more detail next.

Table 2.5 ▪ Common Ethical Challenges Across Business Functions

Business Function	Common Ethical Challenges
Marketing	Deceptive advertising
	Manipulative tactics
	Greenwashing
Sales	High-pressure tactics
	Misrepresentation
	Bribery and kickbacks
Human resources (HR)	Discrimination
	Workplace harassment
	Privacy concerns
Operations	Labor conditions
	Environmental impact
	Product safety
Accounting	Misreporting financials
	Conflict of interest
	Lack of transparency
Financial management	Use of company funds
	Short-term view
	Taking excessive or hiding risk
Business analytics	Bias in data
	Privacy violations
	Misleading insights
Artificial intelligence (AI)	Decision-making bias
	Job displacement
	Misinformation and deepfakes
	Transparency and accountability

Ethical Challenges in Marketing

In Chapter 6, marketing is defined as the process of creating, communicating, delivering, and exchanging product and services that have value for customers. One major ethical issue in marketing is deceptive advertising, where businesses make misleading product claims or exaggerate results to attract consumers. For example, a skincare brand might advertise that its cream can "erase wrinkles overnight," even though no scientific evidence supports such a claim. This not only misleads customers but also damages trust in the brand and the industry.

Another concern is the use of manipulative tactics, particularly when targeting vulnerable populations such as children or low-income communities. Marketers may exploit emotional appeals or use fear-based messaging to push products. For instance, a fast-food chain might heavily advertise sugary meals with toys during children's programming, encouraging unhealthy eating habits from a young age.

A third ethical issue that was discussed earlier in this chapter is *greenwashing*, the practice of companies misleading consumers into believing they are more environmentally friendly or sustainable than they actually are. An example would be a clothing brand promoting a "sustainable" line made from recycled materials, while the majority of its production still relies on environmentally harmful practices. These tactics can mislead consumers and undermine genuine sustainability efforts.

Ethical Challenges in Sales

In Chapter 7, sales is defined as the process of persuading potential customers to purchase a product or service. Ethical challenges in sales often come up when the focus shifts too much toward making the sale and not enough on doing the right thing. One common problem is high-pressure tactics, where salespeople push customers hard to buy something right away. For example, a furniture store rep might say a deal is only good for the next hour, even though the sale actually lasts all week, just to rush someone into buying. Another issue is misrepresentation, which happens when a salesperson gives false or incomplete info about a product. Imagine someone selling a phone and claiming it has a 2-day battery life, when in reality it barely lasts a day with regular use. Then there's bribery and kickbacks, where someone offers gifts or money to influence a buying decision. For instance, a vendor might give a company's buyer expensive tickets or perks in exchange for choosing their product, even if it's not the best option. These kinds of practices can really damage trust and lead to bigger problems down the line.

Ethical Challenges in Human Resources

In Chapter 13, human resources is defined as the part of a company that focuses on employees at all levels of the organization. Ethical issues in human resources usually come down to how fairly and respectfully people are treated at work. One big problem is discrimination, like when someone isn't hired, paid fairly, or promoted because of their race, gender, age, or other personal traits. For example, if a company consistently overlooks older candidates for new roles, even when they're more qualified, that's age discrimination. Or if a qualified woman is repeatedly passed over for promotions in favor of less-experienced male colleagues, that's a clear case of gender discrimination.

Another issue is workplace harassment, which can include bullying, inappropriate comments, or just allowing a toxic environment to continue and go unchecked. If someone reports being harassed and HR doesn't take it seriously or fails to act, it sends the message that bad behavior is acceptable.

Then there are privacy concerns, especially with how companies monitor employees. It's one thing to keep an eye on productivity, but if a company secretly installs software to log keystrokes or record screens without informing employees, it crosses ethical boundaries and can damage trust.

Ethical Challenges in Operations

In Chapter 15, operations is defined as the activities, processes, and systems a company uses to create and deliver its products or services in the most efficient ways possible. Ethical challenges in operations often come down to the choices companies make behind the scenes, especially when it comes to how things are made and delivered. One major issue is labor conditions, particularly when businesses work with suppliers that have unsafe or unfair practices. For example, a clothing brand might source products from a factory where workers are underpaid and forced to work long hours in poor conditions, just to keep costs low.

Another big concern is the environmental impact of operations. Sometimes companies prioritize speed or cost-cutting over sustainability, which can lead to pollution, waste, or overuse of natural resources. For instance, a manufacturer might choose cheaper packaging that isn't recyclable, even though eco-friendly options are available, just to save a few cents per unit.

Then there's product safety, which becomes an issue when companies cut corners on quality control or ignore known risks. An example would be a toy company that skips thorough safety testing to meet a holiday deadline, only to later recall the product due to choking hazards. These kinds of decisions can have serious consequences for both consumers and a company's reputation.

Ethical Challenges in Accounting

In Chapter 16, accounting is defined as a process of recording, sorting, retrieving, and reporting financial data. Ethical issues in accounting often come up when financial information is handled in ways that aren't completely honest or clear. One common problem is misreporting financial data, where companies might tweak the numbers to hit earnings goals or hide financial trouble. For example, a business might record revenue before it's actually earned just to make the books look better for investors. This kind of behavior can lead to serious consequences, including fraud investigations.

Another issue is a conflict of interest, which happens when someone's personal interests get in the way of objective financial reporting. Say an auditor has a financial stake in the company they're reviewing; they might be less likely to report problems, even if they spot them, because it could hurt their own bottom line.

There's also the problem of lack of transparency, where companies leave out important financial details that investors or regulators need to know. For instance, if a company is deep in debt but doesn't clearly report that on its financial statements, it can mislead people who are trying to make informed decisions.

Ethical Challenges in Financial Management

In Chapter 17, financial management is defined as the process of planning, organizing, leading, and keeping track of a company's financial activities to make sure money is used wisely.

Ethical challenges in financial management often come down to how responsibly money is handled and whether decisions are made with the bigger picture in mind. One common issue is the misuse of company funds—this could mean using business money for personal perks, fancy dinners, or non-work-related expenses. For example, if a manager uses company funds to pay for a luxury vacation or expensive gifts, that's a clear misuse of resources and a violation of trust. Sometimes, financial managers might also be pressured to support political causes that benefit the company, even if those causes raise ethical or public image concerns.

Another challenge is having too much of a short-term mindset. This happens when companies focus on boosting quarterly profits to keep shareholders happy, even if it means cutting back on things like employee training, innovation, or sustainability efforts. While it might look good in the short run, it can hurt the company's long-term success.

Then there's the issue of taking on too much risk, or hiding it altogether. Some financial managers might go after risky strategies to get quick returns, even if those risks could seriously hurt the company later. A good example is the 2008 financial crisis, when many firms invested in risky mortgage-backed securities—bundles of home loan that were sold like investments. The problem was that many of the mortgage-backed securities included a lot risky home loans that people couldn't actually afford. In some cases, the financial institutions selling the securities didn't fully explain the risks to investors, which is not only unethical but can also be illegal. Being upfront and managing risk responsibly is key to keeping a company stable and trustworthy.

Ethical Challenges in Business Analytics

In Chapter 18, business analytics is defined as the practice of using data to help inform and influence a company's decision-making. Ethical challenges in business analytics often arise when data are used in ways that are unfair, misleading, or invasive. One major issue is bias in data, which can lead to unfair outcomes, especially in areas like hiring, lending, or law enforcement. For example, if a company uses historical hiring data that reflect past discrimination, an algorithm trained on that data might continue to favor certain groups over others, even if unintentionally.

Another concern is privacy violations, which happen when companies collect or use personal data without proper consent or safeguards. This could include tracking users' online behavior without telling them or storing sensitive information without adequate security measures. These practices not only raise ethical red flags but can also lead to legal trouble.

Lastly, there's the issue of misleading insights, where data are presented in a way that oversimplifies or distorts the truth. For instance, a chart might show a dramatic increase in sales by manipulating the scale of the graph, making the change look more significant than it really is. These kinds of choices can mislead decision-makers and the public, even if the data themselves are technically accurate.

Ethical Challenges Related to Artificial Intelligence (AI)

Though AI is not a specific business function, it's everywhere. AI is changing just about every part of business—whether it's hiring, marketing, customer service, or product development. It opens up exciting new opportunities for efficiency and innovation, but it also raises some tough ethical questions that business leaders can't afford to overlook. As AI takes on more decision-making responsibilities, it's not just about what it *can* do but what it *should* do. As such, ethical challenges related to AI are becoming more important as AI-based tools and systems play a bigger role in our lives.

One major issue that relates to AI is bias and fairness. **AI bias** happens when an AI system gives unfair or incorrect results because the data it was trained on reflect human biases. This can lead to distorted, unfair, and prejudiced outcomes. AI systems are only as fair as the data they're trained on. If those data include bias, whether related to race, gender, income, or other factors, AI can end up reinforcing those same biases. This is especially concerning in areas like hiring, lending, or law enforcement, where biased decisions can have serious consequences leading to distorted, unfair, and prejudiced outcomes.[46] For example, imagine a company uses an AI system to screen job applications. The system was trained on data from the company's past hiring decisions, which, unintentionally, reflected a pattern of favoring male applicants over female ones. As a result, the AI starts recommending more male candidates, even when female applicants are equally or more qualified.

Another ethical challenge is job displacement. AI can automate many tasks, which helps businesses become more efficient, but it also puts some jobs at risk. For example, consider a consumer electronics company that has started using AI-powered chatbots to handle customer service inquiries. These bots can answer common questions, process returns, and even troubleshoot basic issues 24/7, without needing breaks. While this improves efficiency and reduces costs for the company, it also means that fewer human customer service representatives are needed. Scenarios like this raise concerns about unemployment and growing inequality.

A third challenge relates to misinformation and deepfakes. Deepfakes use artificial intelligence to tweak video and audio, making it look like someone said or did something they never actually did. These ultra-realistic fakes can be used to spread false information, harm reputations, or sway public opinion. In 2021, a series of highly realistic deepfake videos featuring Tom Cruise went viral on TikTok, showing the actor performing casual activities like playing golf and doing magic tricks.[47] Created using advanced AI technology and a convincing impersonator, the videos were nearly indistinguishable from real footage. While the creators intended these videos as lighthearted entertainment, their viral spread sparked significant ethical discussions.

The final issue to discuss here, though there are many more, is transparency and accountability. Many AI systems are so complex that even their creators don't fully understand how they make decisions. This lack of transparency, often called the "black box" problem, makes it hard to explain or justify AI-driven outcomes. As AI becomes more capable of making decisions on its own, such as in self-driving cars or automated hiring tools, it's important to ask: Who is responsible when something goes wrong?

The most effective business leaders aim to make the right decision at the right time for the right reason. But ethical challenges are seldom clear-cut—what seems right isn't always clear, and what seems wrong isn't always straightforward. Knowing where to begin when facing an ethical dilemma can feel overwhelming. The next section introduces four frameworks to help guide your decision-making process.

Ethical Decision-Making Frameworks

An ethical decision-making framework can guide your decision-making when faced with an ethical challenge. Most of the frameworks originated from foundational figures in Western philosophy, including Aristotle, Plato, and Immanuel Kant.[48] An understanding of the following four frameworks is important because the ethical challenges in each chapter will ask you to use one of these frameworks to address the challenge.

Utilitarianism

Utilitarianism is an ethical framework that focuses on making decisions that provide the greatest good to the greatest number (or the least harm to the lowest number). This framework requires a step-by-step analysis that includes (1) identifying all the stakeholders involved, (2) evaluating the consequences for each stakeholder, (3) weighing the overall impact (least harm to most stakeholders), and (4) making a decision.

Let's use an example previously discussed regarding the skincare brand that might advertise that its cream can "erase wrinkles overnight," even though there is no scientific evidence to support this claim. Furthermore, let's also say sales are going through the roof. A group of employees bring this to your attention. Here is how to use the utilitarianism framework to make a decision.

1. Identify the Stakeholders
   - Consumers who buy and use the product
   - The skincare brand and its employees
   - Competitors in the skincare industry
   - Consumer protection agencies
   - Society at large (in terms of trust in advertising)
2. Evaluate the Consequences
   - For consumers: Many may feel hopeful and spend money on a product that doesn't deliver as promised. This can lead to disappointment, wasted money, and loss of trust in skincare products or advertising in general.
   - For the brand: The company may see a short-term boost in sales and profit. However, if the claim is exposed as false, it could face backlash, legal action, and long-term damage to its reputation.
   - For competitors: Honest brands may be unfairly disadvantaged, as they lose customers to a company making exaggerated claims.
   - For regulators: False advertising increases the burden on consumer protection agencies and may lead to stricter regulations.
   - For society: Repeated exposure to misleading claims can erode public trust in marketing and science, as well as promote unrealistic beauty standards.
3. Weigh the Overall Impact

   While the brand may benefit in the short term, the overall harm to consumers, industry fairness, and public trust outweighs the temporary gains. The action leads to more unhappiness and harm than good.
4. Decision

   Using this utilitarianism framework, making a scientifically unsupported claim like "erase wrinkles overnight" is unethical. A more ethical approach would be to market the product honestly, even if the claims are less dramatic, because it leads to greater trust, fairness, and long-term satisfaction for all involved.

Deontological (Duty-Based) Ethics

Deontological (duty-based) ethics is an ethical framework that instills a way of thinking about right and wrong that focuses on following certain rules or principles, no matter the outcome. It's about doing the right thing because it's your duty, not because of what might happen as a result. The most applied part of deontological ethics is what's known as **Kant's categorical imperative**, named after Immanuel Kant, a German philosopher and creator of deontological ethics. The categorical imperative is a principle that says we should act only in ways we would want everyone else to act. In other words, if it wouldn't be okay for everyone to do it, then it's not morally acceptable.

Let's use Kant's categorical imperative on the ethical challenge involving a furniture store sales associate who tells a customer that a deal is only good for the next hour, even though it actually lasts all week. Let's also consider that the sales associate gets a significant bonus if they meet a specific daily quota. Applying the categorical imperative, you have to ask yourself, What if *everyone* lied to customers to pressure them into buying? If you think this behavior should apply to everyone, then people would stop trusting salespeople, and the whole system of buying and selling would start to fall apart. If you were the salesperson in this situation and used the categorical imperative as your test, deontological ethics would guide you to avoid lying and manipulating the customer's decision-making process.

Virtue Ethics

Virtue ethics is an ethical framework that focuses on who you are as a person and striving to develop good character traits, or virtues, like kindness, honesty, fairness, courage, compassion, justice, and generosity. Instead of asking, "What should I do?" it asks, "What kind of person should I be?" So rather than focusing on the outcome (as in utilitarianism) or the rules (as with deontological ethics), virtue ethics focuses on you, the decision-maker.

Let's use another example discussed previously—a clothing brand sources products from a factory where workers are underpaid and forced to work long hours. Let's say you are the CEO, and by manufacturing overseas, you are increasing your bottom line significantly. If you were forced to manufacture in the United States, you would have to increase the selling price, which would not likely be competitive with other, similar brands.

Applying virtue ethics, you as the leader of the company are not acting with compassion or justice. You are prioritizing profit over the well-being of people, which in this framework reflects a lack of moral character. However, if you were a virtuous CEO, you would show empathy for the workers, courage to stand up against exploitative practices, and integrity in choosing suppliers that align with ethical labor standards, even if it costs more.

Distributive Justice

Distributive justice is an ethical framework that is about fairness in how resources, opportunities, and benefits are shared among people in a society. It asks: Who gets what, and is it fair? Distributive justice is complicated because it begs a deeper question: How do we decide what is fair? Fairness can mean different things depending on the situation. For some, fairness might mean **equality**, where everyone gets the same status, rights, and opportunities. For others, it might mean **equity**, where resources are distributed based on individual needs or contributions. The concept of fairness often depends on values like justice, effort, or compassion, which can vary between societies and cultures. As a result, distributive justice overlaps with the other ethical frameworks at times.

Let's apply distributive justice to an example of a new educational app that only works on the latest smartphones. Because the core of distributive justice is fairness, a just system would ensure that everyone, regardless of income or background, has a fair chance to benefit from the new app. Since the app only works on the newest smartphones, students from lower-income families, who might not be able to afford those devices, get left out. That makes things even more unfair and widens the gap between students who have access to tech and those who don't, reinforcing economic *inequality*. Now we need to consider the impact on *equity* in this scenario. Students who already face disadvantages (due to income, geography, or other factors) are further marginalized. This violates the *equity* test within the distributive justice framework, which calls for giving more support to those who need it most to ensure a level playing field. So what's the ethical decision here? The decision would be to design the app so it works on a wider range of devices, including older or lower-cost models. Alternatively, the company could provide access to devices or partner with schools and nonprofits to ensure broader access. This would help close the digital divide and promote a more just and inclusive educational environment.

As you move through the chapters in this text, you will face ethical challenges and will be asked to use one of the four frameworks just discussed. To help you, Table 2.6 summarizes the four ethical frameworks by highlighting the basic questions to answer when faced with an ethical challenge.

The above frameworks can produce different decisions, which makes behaving ethically even more complicated. The four ethical frameworks help us think about right and wrong from different points of view. To illustrate these different viewpoints, let's apply each framework to the same ethical dilemma. Imagine this situation: A company is deciding whether to close a money-losing store location. Closing it would save the business money but would also mean laying off 10 employees.

A *utilitarian* approach would ask which decision creates the most overall good—so the company might choose to close the store to protect the jobs of 100 employees at other locations. A *deontological* approach suggests that *every* store that is losing money must be shut down and fire the employees who

Table 2.6 ▪ The Four Ethical Frameworks

Ethical Framework	Guiding Questions
Utilitarianism	What action provides the greatest good to the most people? What action produces the least harm to the fewest people?
Deontological Ethics	Do I want my action to be allowed by everyone without consequence?
Virtue Ethics	Is this action supporting the type of person I want to be? Do my actions demonstrate good character traits, or virtues, like kindness, honesty, fairness, courage, compassion, justice, and generosity? Is this action supporting the type of person I want to be?
Distributive Justice	What is fair in this scenario? Does my action promote equality? Does my action promote equity?

are working there. A *virtue ethics* approach would focus on what a virtuous leader would do—maybe shutting down the store but showing compassion by finding ways to retrain or relocate the affected employees. A *distributive justice* view would ask what's fair—perhaps suggesting that the company close the store but provide generous severance or extra support to the workers being let go. Each framework offers a different way to think about ethical decisions, and none is completely right or wrong. Remember, it's not red or green for yes or no; there are many shades of color between those two choices.

Ethical Challenge

Navigating AI in Business

You are a data analyst working at an established tech company that specializes in creating AI-driven solutions for businesses. Your company has recently developed a new AI tool designed to automate hiring processes by screening resumes and recommending top candidates for interviews. While the tool promises to save time and reduce human bias, you've noticed that the algorithm appears to favor certain demographics over others, raising concerns about fairness and discrimination. The company's founder and CEO is eager to launch the tool to stay ahead of the competition, but they are relying on your analysis to determine if the AI tool is ready for deployment.

You've been reading a lot of research that talks about how AI can be biased when used for hiring decisions. You've learned that when AI is trained on past hiring data, it can be biased. For example, if the company mostly hired men or people from certain schools, it can learn to favor those same kinds of candidates. Even though you've been with the company for less than a year, simple observation shows that hiring has skewed toward men with American or Asian backgrounds from West Coast universities. Given that your company's AI tool was trained on internal data, it's very likely that qualified applicants will be overlooked just because they don't fit the same pattern.

Using the *deontological ethics* framework, what will you tell the CEO?

Critical Thinking Questions

1. Should you recommend launching the tool as is, knowing it could lead to biased hiring decisions? Or should you delay the release to conduct further audits, even though it will slow the company's growth and threaten its position in a very competitive industry?
2. What is the categorical imperative in this scenario, and how does that guide your decision?
3. The CEO is eager to move forward and has asked to meet with you later today. Draft a script of what you will say.

In Review

2.1 Distinguish between the growth and fixed mindset and demonstrate how a growth mindset is required in business today.

Mindset, in general, is a set of beliefs and attitudes that help you make sense of the world around you. It influences our behavior and decision-making. With a *fixed mindset*, people believe their talents and abilities are set traits and often avoid challenging situations to maintain some perceived sense of intelligence and competence. In contrast, people with a *growth mindset* believe that their abilities can be developed through dedication, effort, and hard work. A growth mindset encourages people to keep learning, improving, and adapting—qualities that are critical for implementing the three principles: *environmental and social impact, entrepreneurial thinking*, and *ethical behavior.*

2.2 Explain the role of business in creating positive, meaningful change in the world.

Organizations must value social and environmental impacts in addition to profit to make a positive difference in the world, something that is called the *triple bottom line*, or the 3Ps: people, planet, and profit. Social impact aligns closely with the United Nations Sustainable Development Goals (SDGs) as both focus on creating positive, meaningful change in the world. This mindset also to extends to *environmental, social, and governance (ESG)*, which outlines three key areas businesses consider when evaluating their broader impact on the world and making responsible decisions. Companies that do not uphold these values can be accused of *greenwashing.*

2.3 Connect effectual reasoning, tolerance for failure, grit, and resiliency to entrepreneurial thinking.

Entrepreneurial thinking helps you recognize and act on opportunities, make decisions even with limited information, and stay adaptable and resilient in uncertain and challenging situations. According to research on serial entrepreneurs from pioneering entrepreneurship researcher Saras Sarasvathy, entrepreneurs exhibit a particular way of thinking called *effectual reasoning.* Based on Sarasvathy's cutting-edge research, entrepreneurial thinking starts with understanding seven elements of effectual reasoning: Start with what you have; control, don't predict; take smart risks; work with others; stay flexible; be resourceful; and turn problems into opportunities. *Fear of failure* is an impediment to the entrepreneurial thinking and a major part of the fixed mindset. Developing *grit* is a good way to overcome some elements of our fear of failure and support our capacity to think entrepreneurially. Thinking entrepreneurially also requires resilience. Four factors contribute to building resilience in adverse situations: emotional factors, cognitive factors, prior experience, and social factors.

2.4 Explore four decision-making frameworks to navigate ethical challenges across business functions.

Ethics are the moral principles that guide how people decide what is right and wrong. These principles shape our behavior in everyday life, influencing how we treat others and how we handle responsibility. An *ethical dilemma* is when you're stuck between two or more choices, each with its own set of moral principles, and none of the options are entirely right or wrong. Key elements of ethical behavior include integrity, accountability, fairness, respect, transparency, compassion, and adherence to laws, all of which shape one's reputation, relationships, and career trajectory.

Ethical challenges can arise in every major business function (marketing, sales, human resources, operations, accounting, financial management) and the growing presence of AI-based tools and systems, additional ethical challenges have emerged. An ethical decision-making framework can guide your decision-making when faced with an ethical challenge. There are four main ethical frameworks: utilitarianism, deontological (duty-based) ethics, virtue ethics, and distributive justice.

Key Terms

AI bias
Circular economy
Deontological (duty-based) ethics
Distributive justice
Dual-purpose companies
Effectual reasoning
Environmental, social, and governance (ESG)
Equality
Equity
Ethical dilemma
Ethics
Fear of failure
Fixed mindset
Greenwashing
Grit
Growth mindset
Kant's categorical imperative
Mindset
Resilience
Serial entrepreneurs
Sustainable Development Goals (SDGs)
Triple bottom line
Utilitarianism
Virtue ethics

Business Case Study 2.1: ASML—Veldhoven, the Netherlands

SDG 9: Industry, Innovation, and Infrastructure

ASML is a Dutch multinational company renowned for its machines used to build computer chips. The company addresses a critical need in the semiconductor industry: the development of more advanced lithography tools to enable smaller and more complex chip designs. These tools use light (or other radiation sources) to "print" the extremely tiny and detailed circuit patterns that form a computer chip's components. Before ASML's innovations, the semiconductor industry faced significant limitations in the size and efficiency of computer chips. Size and efficiency are important in chip design because they directly impact how fast, powerful, and energy-efficient devices can be.

ASML entered a market dominated by Japanese companies like Nikon and Canon. Starting with just 100 employees in 1984, the company has grown to over 37,000 employees globally. ASML, through consistent innovation, has become the market leader in lithography systems. It is the only company in the world that produces EUV (extreme ultraviolet) lithography machines, enabling the production of smaller, faster, more powerful chips using a shorter wavelength of light. ASML doesn't just make one type of machine. It offers a full range of tools and services that support the entire chip-making process. The company also produces deep ultraviolet (DUV) lithography systems (to make less advanced chips), metrology and inspection systems (to check chips for accuracy and defects), and computational lithography software (to simulate chip design before it's actually created). The company also provides training and support for customers that use their machines.

The development of EUV technology took over 20 years and represents a significant achievement that competitors have been unable to replicate. Each EUV machine contains more than 100,000 parts, costs approximately $150 million, and requires 40 shipping containers to transport. This technological advantage has given ASML a near-monopoly position in advanced chipmaking equipment.

ASML holds a unique position in the global technology supply chain, providing essential equipment to semiconductor manufacturers like TSMC, Samsung, and Intel. ASML's growth represents a solution to what semiconductor experts call "Moore's law"—the observation that the number of transistors on a computer chip tends to double roughly every 2 years, while the cost stays about the same or goes down. This means computers and other digital devices get faster, smaller, and more powerful over time, but at a predictable pace. Without ASML's lithography breakthroughs, this progression would have stalled years ago, potentially slowing the entire digital revolution.

Another unique aspect of ASML's approach is its open innovation model, collaborating with suppliers, customers, and research institutions to solve complex engineering challenges that would be impossible for a single company to address alone. They have demonstrated how to build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation, while also taking steps to combat climate change and its impacts.

ASML is making steady progress on its sustainability goals by focusing on reducing its environmental impact and supporting society through innovation. The company is cutting energy use in its facilities, using more renewable energy, and partnering with suppliers to reduce carbon emissions across its supply chain. Even though ASML has achieved some amazing breakthroughs, its journey hasn't been easy. Developing EUV lithography came with major technical challenges, like creating a stable light source, building extremely precise optics, and making sure all the parts worked together in one system. It took billions of euros and years of hard work to solve these problems. Along the way, ASML faced doubt and criticism from others in the industry and felt a lot of pressure to make it work. But they had a lot of people thinking entrepreneurially and the company pushed through and made it happen.

ASML's journey from 100 employees to a global leader in semiconductor manufacturing is a testament to the power of innovation and company grit and resilience. By overcoming significant technological challenges through its pioneering work in EUV lithography, ASML has redefined the entire semiconductor industry. Its story is a clear demonstration of how targeted technological advancements can drive industry-wide transformation.

Critical Thinking Questions

1. What evidence is provided in the case that suggests ASML employees practice entrepreneurial thinking?
2. How has ASML managed to maintain its competitive advantage in the semiconductor industry despite the presence of established competitors like Nikon and Canon?
3. How has ASML's EUV lithography technology influenced the pace of technological progress and the development of new electronic devices.

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Business Case Study 2.2: Calm—San Francisco, California

SDG 3: Good Health and Well-Being

Entrepreneurs have long been revered for their ability to positively impact society and the economy by providing needed goods and services, spurring innovation, providing jobs, and even disrupting established industries. Oftentimes, entrepreneurs will identify a need in a current market along with an opportunity to address the need. That is exactly what Alex Tew and Michael Acton Smith discovered in 2012 when they founded the company Calm, based out of San Francisco, California. Calm is a sleep, relaxation, and meditation app whose mission is "to support everyone on every step of their mental health journey." With just $1.5 million in startup money, Tew and Acton Smith have turned Calm into a company worth $2 billion.

As consumer mindsets have shifted to a holistic view of health and well-being, the app provides a convenient way for consumers to focus on their mental health and sleep at an affordable price. The app has a free version as well as a premium version for $14.99 per month. Lifetime subscriptions can be purchased for around $400. The app has been downloaded more than 150 million times and has more than 2.5 million five-star ratings. In 2017, Calm was named App of the Year by Apple. The company has also been named one of the most Innovative Companies by *Fast Company* and one of *Time Magazine's* 2022 Most Influential Companies.

A large part of the company's success comes from its ability to serve two types of customers. It sells products directly to individual consumers, which is known as business-to-consumer (B2C). It also sells products and services to other businesses, called business-to-business (B2B). In addition, the company forms partnerships with other organizations. These strategies help the company create multiple sources of revenue.

Founder Tew recognizes the multifaceted impact that Calm has: "It's a great business, but we are creating value in society as well." One of the main goals of the company is to make holistic well-being "accessible" to as many people as possible. The company uses celebrities like Matthew McConaughey, LeBron James, and Harry Styles in an effort to reach as broad an audience as possible.

The effects of the app are nothing short of remarkable. Clinical trials show that using the app for just 8 weeks can help reduce depression symptoms by 25% and anxiety symptoms by 24%. Users also see a 21% reduction in insomnia symptoms and a 19% reduction in daytime sleepiness. These clinical trials have been substantiated by the National Institutes of Health, which found that "Calm is an effective modality to deliver mindfulness meditation in order to reduce stress and improve mindfulness and self-compassion." In 2024, the company partnered with UnitedHealthcare to bring Calm to 13 million members. The company has plans to further integrate with the U.S. health care system with a goal of "making a lasting impact."

However, the path to success was not an easy one. The founders themselves have even struggled with their own mental health. When they were raising money to start Calm, Tew and Acton Smith were met with hesitation, with many potential investors not seeing a need for the app. It took the pair 2 years to raise the initial $1.5 million in startup money, meeting with more than 100 potential investors during that time. Tew describes the startup process as being extremely stressful and even drove himself to a point of burnout. It was at that point that he realized just how much the app was needed.

Acton Smith says that while their app is based on technology, the company wants users to create a "mindful, not mindless relationship with their phones." He offers this piece of advice for budding entrepreneurs: "If your idea does seem a little strange, if you are getting funny looks, it could be that you are on to something amazing."

Critical Thinking Questions

1. Despite initial investor hesitation and personal mental health struggles, how did Tew and Acton Smith overcome these challenges to secure funding and build a successful company, and what lessons can aspiring entrepreneurs learn from their journey?
2. What does "mindful, not mindless relationship with their phones" mean to you, and what is your own relationship with your phone?
3. What evidence can you identify of the founders prioritizing social impact?

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