

BUSINESS IN AN ENTREPRENEURIAL WORLD

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THE BUSINESS OF BUSINESS

LEARNING OBJECTIVES

- 1.1 Define business and its role in generating economic and social value.
- 1.2 Identify the five primary components of business.
- 1.3 Illustrate how business can play a role in solving the most complex problems facing society today.
- 1.4 Relate the evolving practice of business to the changing nature of work.
- 1.5 Justify that good business is founded on social responsibility and ethical decision making.

BUSINESS IMPACT CASE 1.1: 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 company, and won the prestigious United Nations Champion of the Earth award in 2019, the United Nations' top environmental honor, for its entrepreneurial vision. Patagonia's mission is "We're in business to save our home planet," and this mission guides its business model today.¹

Patagonia was officially founded in 1973 but has its roots all the way back to 1957. The founder, Yvon Chouinard, was an avid climber and at the age of 19 started forging rock-climbing pitons² that he would sell for \$1.50 a piece. As the demand for pitons went up, he founded the company Chouinard Equipment. In 1965, Chouinard 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.³ 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 and sold out immediately. Seeing evidence of demand, Yvon began sourcing the rugby shirts from New Zealand and Argentina. Soon they further diversified into selling waterproof jackets and bivouac sacks (lightweight shelters smaller than tents) from Scotland, boiled-wool gloves and mittens from Austria, and hand-knit 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 the 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, climbing; packs and gears such as sleeping bags, laptop bags, and totes and slings for men, women, and kids. In addition to selling through retailers, Patagonia has over 50 stores worldwide, and this number is expected to increase.

Customers, more than ever, appreciate Patagonia's mission to protect the Earth. Yvon always had a focus on the role of businesses in protecting 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), 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:

- It voluntarily imposes a 1% earth tax on its sales and donates proceeds to grassroots environmental organizations. Patagonia has donated approximately \$100 million through this initiative.
- It is working toward a goal of ensuring all products are made from recycled materials. Currently, almost 70% of all products are made from recycled materials.
- Patagonia runs an environmental internship program that allows employees to leave their roles and work for an environmental group of their choice for up to 2 months. Employees then return to Patagonia with a renewed commitment to the environment.
- In 2018, the U.S. government lowered tax rates for corporations. While many CEOs of large businesses appreciated the lower rate, Patagonia's CEO, Rose Marcario, called these tax cuts irresponsible and announced that all tax savings would be donated to environmental organizations.

Even in the midst of a global pandemic, Patagonia acted as a role model for other corporations. While working toward protecting the planet as much as it can, it also set benchmarks for taking care of the primary asset of any corporation—its employees. At the end of 2021, Patagonia announced it was giving its employees a paid break. All of its stores closed, and online fulfillment stopped from December 25, 2021, through January 2, 2022.⁴ As Patagonia noted on the company's website: "At Patagonia, we do our best to not be bound by convention and to look out for people and the planet. For the last week of this year, we are shutting down our stores, warehouse, and offices in the United States and Canada because our people need a break."

Critical Thinking Questions

1. Why does Patagonia call itself an activist company?
2. How is Patagonia supporting the UN Sustainable Development Goal of Climate Action?
3. How is Patagonia a role model for other corporations?

WHAT IS BUSINESS?

If you are reading this book, we want you to know that the world needs you, and now more than ever. The COVID-19 pandemic has turned the world of work upside down and forced us to think about life and work in different ways. 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.

We need *you* to be entrepreneurial and go after something that is meaningful to yourself and to others. To be **entrepreneurial** requires a way of thinking and acting that combines the ability to find or create new opportunities with the courage to act on them. And we are going to help you work on becoming more entrepreneurial through this book.

Business is the global platform for impact today, which is why it's essential that you understand its foundations.

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. **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 global challenges.

In the Patagonia example, economic value is generated by the sales of its 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% earth tax to conduct activities to protect the planet and working to make the most of its products from recycled materials.

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 field.

Types of Business Organizations

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.

In the United States, there are three sizes of organizations: small, mid-size, and large, defined by the number of people they employ. **Small businesses** have fewer than 100 employees, **mid-size businesses** between 100 and 500, and **large businesses** more than 500 employees. Represented in all these size categories are startups, multinational corporations, growth companies, and nonprofit organizations.

Startups

A **startup** is a newly formed business with limited or no operational history. Some of today's largest and most well-known businesses began as startups, including eBay, Uber, Airbnb, Apple, and Facebook. Many startups are created to solve problems. For example, San Francisco startup fresh food company Afresh, founded in 2016, set out to eliminate food waste (every year, U.S. retailers throw out \$18 billion worth of spoiled food) using specialized software that can be accessed by an app.⁵ This helps grocery stores monitor their fresh food quantities so they can cut back on waste. Some stores have already reported that their amount of waste has been halved.

Multinational Corporations

A **multinational corporation** is a business with operations in multiple countries that sells products and services to customers all over the world. Walmart, Exxon Mobil, and Berkshire Hathaway are among the biggest American multinational companies in the world.⁶ Multinationals also have many businesses under one umbrella. For example, Procter and Gamble manages over 60 brands across 10 product categories, including hair care, family care, and skin and personal care.⁷

Growth Companies

A **growth company** is a business that increases its annual revenue faster than its competitors in the same industry or market. Mattress and bedding brand Bear Mattress is one of the fastest growing companies in the United States.⁸ The company differentiates itself from competitors by marketing its mattresses to athletes. Within 3 years from its start in 2014, Bear Mattress made \$20 million in revenue. However, as clothing retailer Forever 21 discovered, there is such a thing as growing too fast. It opened more stores

during a period when its competitors were closing stores and moving online. In 2019, Forever 21 filed for bankruptcy.⁹



Forever 21 found out the hard way that rapid growth is not always a smart business move. The company filed for bankruptcy protection after opening a large number of stores.

Associated Press/Kiichiro Sato

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. Religious groups, charities, environmental groups, and cooperatives are all examples of nonprofit organizations. For example, Step Up For Students is a nonprofit organization that raises money for low-income students living in Florida to help pay for school tuition. Goodwill Industries is also an example of a nonprofit, but it seeks to earn revenue by making a profit in its retail stores, which are used to fund other aspects of its operations such as job training and housing.

Regardless of the type of business, each and every organization has the potential to solve some of today's most complex and pressing problems.

THE BUILDING BLOCKS OF A BUSINESS

In this textbook, we have mapped the essential components of business to five blocks. These blocks represent the fundamentals of building and operating a business and are represented in Figure I.1. The five blocks, detailed in the sections that follow, should be thought of as blocks that build a modern business for an increasingly entrepreneurial world.

Block 1: The Offering

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 not only addresses the product or service but also the **business model**, which describes the rationale of how a new business venture creates, delivers, and captures value.¹⁰ For example, Naturebox offers healthy snack boxes to promote wellness and nutrition. Its business model is a subscription model, so snacks are delivered monthly.¹¹

A business is only successful if its offering can sustain a profit over time, and this requires understanding and outperforming the competition. 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*. 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 organization level. On a product level, it differentiates its soap category from competitors by producing Dove, which, unlike most soaps, not only cleans but 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.”¹²

Block 2: Markets and Customers

Every business works to identify and sell to customers in markets. Businesses don’t exist without customers because a business creates value by providing products and services that people need. **Customers** are those willing to buy and use products and services offered by companies. Markets are groupings of similar customers that are entering transactions with businesses. For example, Lime is a micromobility company that offers bike and scooter sharing services. Buyers are younger people who live in urban areas (customers) who need alternative transportation for short commutes (market). Successful companies know how to attract, sell to, and build relationships with customers, which is done through the sales and marketing function of a company.

Block 3: Structure and Purpose

Every business has a structure and a culture. An **organizational structure** determines the flow of work and outlines how tasks are directed to various employees to achieve organizational goals. Think about a job you may have or had. 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 those 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 are values and beliefs that create an environment that is unique to that business. For example, the culture of Google is known to be flexible, fun, and trusting. Employees are allowed to work when and how they like, encouraged to use video games and ping-pong for fun, and build trusting relationships by coaching each other in the “Googler to Googler” program.¹³



By offering perks like climbing walls and table tennis to its employees, Google demonstrates its fun corporate culture.

MediaNews Group/Boulder Daily Camera via Getty Images

Block 4: People Inside the Business

People are the employees who work in and on a business. From the president of the company to middle managers to entry-level employees and every person in between, businesses comprise people. Essential soft skills such as leadership, management, decision-making, and communication differentiate average employees from top-performing employees. Such soft skills are often overlooked in business textbooks, but their importance in today's workplace should not be underestimated. Leadership relates to influencing, motivating, and empowering others to reach their full potential. Management relates to organizing and facilitating others to get the work of the company done. Effective leadership and management with sound human resource practices create a positive work environment for employees at all levels. Without employees, the business cannot operate or meet the needs of customers.

Block 5: Performance

Business performance relates to efficiency of **operations** and processes, collecting and recording performance data (such as customer data or financial data) for better decision-making, and sharing recorded data through financial statements to interested parties (such as investors or stockholders).

Business operations is about understanding how all of the above blocks come together to make the organization function. This may include staffing, business processes, location, supply chain, manufacturing, research and development, or use of equipment and technology. Businesses have different operational needs. Hospitals, restaurants, brick-and-mortar retail stores, online stores, hotels, and software companies all have different operational needs. Hospitals have to keep track of patient records, restaurants need systems to keep track of orders, retail stores must track inventory, hotels have systems for cleaning rooms, software companies may need to keep track of a virtual workforce, and so on.

Every business has to manage the money coming into the business (called revenue) and the money leaving the business (called expenses), as well as understanding the implications of financial decisions (such as investments). 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. 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 (see Chapter 17). The story that numbers can tell can be quite interesting!

THE ROLE OF BUSINESS IN THE WORLD TODAY

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 25 years ago, back in 1997, the BRT stated that the only duty organizations had was to its **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 offers a radically different viewpoint of the role of business in today's society.

Larry Fink has a similar view to that of the BRT. You may not have heard of Fink, but he is at the forefront of defining the role of business today. Fink is the CEO of Blackrock, one of the world's largest investment management firms in New York City. 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?¹⁴

As the BRT and Fink suggest, today's businesses can no longer exist for pure profit. No organization can afford to ignore its social and environmental impact. These viewpoints have become even more important in the wake of the COVID-19 pandemic, which shone a spotlight on the huge divide between the wealthy and the working classes. Many of the people impacted by the virus were those working on the front lines in hospitals, clinics, and grocery stores who often had no health insurance or paid sick leave. Corporations also have a vital role to play in addressing many other social problems, such as climate change, systemic racism, and reevaluating their hiring practices and wage systems to ensure that everybody is given a fair chance and a living wage.

This is why consumers, employees, entrepreneurs, and more and more large corporations—including Patagonia—are existing not only for profit but for purpose. Fink believes that in business, purpose is related to what companies do to create value for their stakeholders, which can and should be positively linked to profit. Purpose-driven companies bring management, employees, and communities together; create a framework for making sound decisions; and deliver long-term financial returns for shareholders.¹⁵ That “purpose” is related to people, planet, and profit.

People, Planet, Profit

Today's organizations must place 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.

People

Every business has a responsibility to take care of its people and the wider community. American insurance company and BRT member Aflac operates on the ethos that taking care of people is the path to business success.¹⁶ Research conducted on great places to work conducted by *Fortune* magazine also demonstrates that companies that give back to the community are associated with higher employee retention, greater employee loyalty to the brand, and more motivated employees.¹⁷

Planet

Businesses also have a responsibility toward maintaining the health of our planet. Through its Innovation for Good program, Wisconsin-based plumbing fixture company Kohler Co. has invested in clean drinking water and sanitation, clean and affordable energy, and responsible production. When Hurricane Maria devastated Puerto Rico in 2017, Kohler provided 100,000 water filters for schools, houses, and community centers. These contributions allowed more than 270,000 students to go back to school.¹⁸

Profit

Focusing on people and the planet does not stop organizations from making a profit. 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. Building economic and social value into their core mission helps companies to pay more attention to their employees, customers, communities, and the environment. Outdoor recreation company REI is an example of a dual-purpose company. REI is one of the few retail stores that closes on Black Friday—the annual major shopping event where retailers offer highly promoted sales to customers. Instead, REI has launched an #OptOutside campaign, which encourages people (including REI employees) to spend the day outdoors.¹⁹ Rather than losing money and customers by shutting its doors on a major sales day, REI has actually become even more profitable. It turns out that people are attracted to REI's core values and its eco-friendly philosophy by encouraging outdoor activity in favor of a shopping frenzy.

As another action in support of its core values related to employees, REI adjusted its staff policies in 2020 to ensure that all employees, including those paid by the hour, received income when they tested positive with COVID-19 or cared for ill family members.²⁰

Table 1.1 highlights other companies that are doing good while doing well, but there are so many more out there. Look around!

TABLE 1.1 ■ Companies That Do Good for the World While Making a Profit

| | |
|--------------------------|--|
| 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. |
| Revolution Foods | The company is driven to provide accessible, healthy meals to school children, and serves millions of chef-crafted meals to schools in over 15 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 company Terracycle, it is turning hard-to-recycle trash into durable goods. Think park benches, playground equipment, and bike racks! |

The UN Sustainable Development Goals (SDGs)

In 2015, 193 nations adopted the United Nations (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 1.1). The goals address major issues including climate change, chronic health conditions, and aging populations, to name just a few. Every business has the opportunity to do well and to do good by aligning business activities, products sold, manufacturing processes, human resources, and overall impact in support of the UN Sustainable Development Goals (SDGs).



But meeting these goals isn't just the right thing to do: If businesses play their part in addressing these challenges, then \$12 trillion could be generated in business opportunities as well as create 380 million jobs worldwide.²¹ The major business opportunities that led to the \$12 trillion estimate will likely come from four areas: food and agriculture, cities, energy and materials, and health and well-being.²² Why? Because companies that operate in more humane and sustainable ways drive positive change as well as support such change to protect people and the planet we inhabit. Some companies that align with the SDGs are selling and producing sustainable, Earth-friendly products. Others are minimizing their carbon footprint in manufacturing processes. Still others are changing hiring practices that allow for greater diversity, equity, and inclusion. And many are supporting the SDGs through philanthropic efforts such as supporting reforestation, leading education efforts in developing countries, or partnering with local community organizations to reduce homelessness. These are just a few examples, but one thing is clear: The UN SDGs are an important to-do list for the planet, and many companies are working hard to show that business can make a profit and do good for the planet at the same time. In fact, it is a responsibility for businesses to do so.

The following statement, issued by leading global organizations, private-sector institutions, and networks, emphasizes how important and beneficial the SDGs are to companies all over the world:

The SDGs provide all businesses with a new lens through which to translate the world's needs and ambitions into business solutions. These solutions will enable companies to better manage their risks, anticipate consumer demand, build positions in growth markets, secure access to needed resources, and strengthen their supply chains, while moving the world towards a sustainable and inclusive development path.²³

There are many examples in this book of companies working toward the SDGs. For starters, Good Energy, based in the UK, provides renewable energy through wind and solar farms; it has grown over 30% a year by attracting customers interested in combating climate change. Similarly, India-based affordable health care company Narayana was set up to address early heart problems and has since grown to become one of the biggest health care providers in the country.²⁴ In fact, every single company example we use in this book connects to at least one of the SDGs, and every case at the beginning and ending of each chapter illustrates a company that deeply connects to a particular goal.

FIGURE 1.1 ■ The UN's Sustainable Development Goals

| Goal | Description |
|---|---|
|  1 NO POVERTY | End poverty in all of its forms everywhere |
|  2 ZERO HUNGER | End hunger, achieve food security and improved nutrition and promote sustainable agriculture |
|  3 GOOD HEALTH AND WELL-BEING | Ensure healthy lives and promote well-being for all at all ages |
|  4 QUALITY EDUCATION | Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all |
|  5 GENDER EQUALITY | Achieve gender equality and empower all women and girls |
|  6 CLEAN WATER AND SANITATION | Ensure availability and sustainable management of water and sanitation for all |
|  7 AFFORDABLE AND CLEAN ENERGY | Ensure access to affordable, reliable, sustainable and modern energy for all |
|  8 DECENT WORK AND ECONOMIC GROWTH | Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all |
|  9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation |
|  10 REDUCED INEQUALITIES | Reduce inequality within and among countries |
|  11 SUSTAINABLE CITIES AND COMMUNITIES | Make cities and human settlements inclusive, safe, resilient and sustainable |
|  12 RESPONSIBLE CONSUMPTION AND PRODUCTION | Ensure sustainable consumption and production patterns |
|  13 CLIMATE ACTION | Take urgent action to combat climate change and its impact |
|  14 LIFE BELOW WATER | Conserve and sustainably use the oceans, seas and marine resources for sustainable development |
|  15 LIFE ON LAND | Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss. |
|  16 PEACE, JUSTICE AND STRONG INSTITUTIONS | Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels |
|  17 PARTNERSHIPS FOR THE GOALS | Strengthen the means of implementation and revitalize the global partnership for sustainable development |

Source: United Nations. [2022]. *Sustainable Development Goals*. <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, its officials, or member states.

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ENTREPRENEURIAL MINDSET ACTIVITY

Three Plus Three

The UN Sustainable Development Goals represent \$12 trillion in business opportunities. That's huge! To demonstrate further that business can earn profit and do good at the same time, it's time to use your own imagination. Identify three of the 17 goals with which you feel you have a connection. That connection may come from your background, or just curiosity. Learn a little bit more about your three chosen goals by reviewing Figure 1.1 and visiting the United Nations' website. Now it's time to think of new potential business ideas that connect to each of your three goals. So, learn about three UN Sustainable Development Goals and identify one new business idea for each. Write them down. Start talking to others about your favorite idea. You never know what can happen next!

Critical Thinking Questions

1. Why did you choose your three goals?
2. How difficult was it to identify business ideas? Explain why.
3. Did you talk to others about at least one of your ideas? If so, what did they say? If not, why not?

THE FUTURE OF WORK

Not only is the viewpoint of business leaders changing (emphasizing people and planet just as much as profit), but the very nature of work is going through a major evolution. The COVID-19 pandemic first took hold in early 2020, leaving millions of people across the world in lockdown, with over half the global workforce working remotely and forcing them to communicate virtually. The pandemic has also forced people to reevaluate their work and their priorities, leading to millions of Americans leaving their jobs in a trend known as the Great Resignation.

In China, young professionals denounced the pressures of high-stress work with long hours and little reward through a social movement called *tang ping*, or “lying flat”—a lifestyle choice that rejects the culture of overwork by prioritizing health and well-being.²⁵

There is no traditional path in business any longer. The idea of getting an entry-level job, climbing the corporate ladder, and retiring with a comfortable pension is completely obsolete. There is no such thing as “lifers” anymore—people who start and end their career with the same company. Instead, more and more people are turning to the gig economy for work.

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.”²⁶ The world of work has undergone a rapid transformation in just a single generation. Today's employees can no longer expect the same job security or financial benefits as before.

Instead, the current generation 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.

The COVID-19 pandemic has accelerated this trend as millions of employees redefine the nature of work by choosing jobs based on their lifestyle.²⁷

The growth of the gig economy is a global trend, with predictions that half the U.S. population will have engaged in gig work by 2027.²⁸ There are three main components of the gig economy: the workers, the companies, and the consumers.²⁹

The Workers

There are two categories of gig workers: labor providers and goods providers. Labor providers are the people who actually do the job. 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 the products, such as artists, craftspeople, and clothing makers.

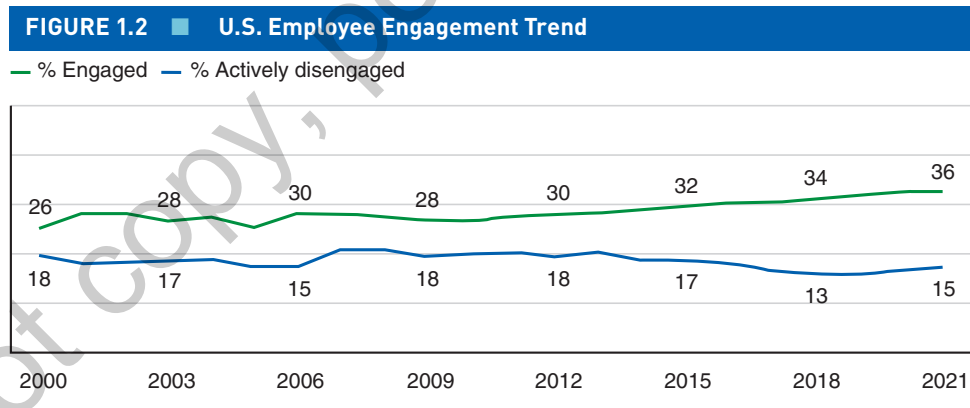
The Companies

Although the concept of gig work isn't new—people have been picking up odd jobs for centuries—the technology platform companies that have emerged over the last few decades have been a major force in the growth of the gig economy. Companies like Uber, Lyft, Etsy, 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 also benefits consumers who need a specific service, such as a ride to their workplace, or an item to be delivered. They 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 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 the traditional corporate life and who are looking for something more. In 2018, the Gallup organization reported its highest levels of employee satisfaction since 2000 (see Figure 1.2).



Source: Harter, J. (2021). U.S. employee engagement holds steady in first half of 2021. *Gallup*. Retrieved from <https://www.gallup.com/workplace/352949/employee-engagement-holds-steady-first-half-2021.aspx>

It could be argued that the increase in employee satisfaction is also due to the emergence of the gig economy. Despite the uncertainty that comes with giving up the support of a traditional employer (gig workers do not receive health insurance or any other benefits), more and more people believe that satisfying work, quality of life, flexible hours, and more control over their portfolio of gigs is worth the sacrifice. Approximately 150 million workers in North America and Western Europe have left stable, traditional employment to become gig workers. Table 1.2 explains the four strategies gig workers use to cope with the uncertain nature of their work.

TABLE 1.2 ■ The Four Things Gig Workers Do to Thrive in a Gig Economy**1. Place**

Gig workers seek out places to work that protect them from outside distractions to give them the best opportunity to create a space they need to be inspired and to get things done.

2. Routines

Daily routines are important to gig workers, as they give them a sense of control and focus when working under uncertain circumstances. These routines could include keeping a schedule, creating a to-do list, meditation, or exercise.

3. Purpose

Gig workers don't just do jobs for money but for the joy of connecting to a broader purpose. Through this sense of purpose comes great satisfaction from being productive, creative, and authentic.

4. People

Despite working for themselves, gig workers still need people around them for social interaction and to exchange thoughts and ideas. These could be friends, family, collaborators, or people who work in similar areas.

Source: Adapted from Petriglieri, G., Ashford, S., & Wrzesniewski, A. (2018). Thriving in the gig economy. *Harvard Business Review*. Retrieved from <https://hbr.org/2018/03/thriving-in-the-gig-economy>.

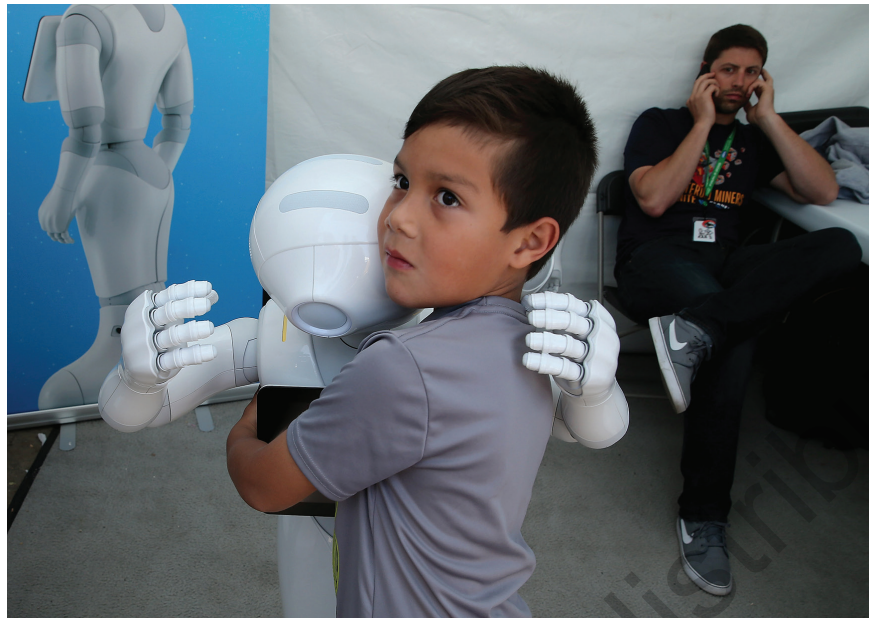
AI, Automation, and the Work of the Future

The gig economy is not the only thing that is changing the nature of work. The rise of machine learning, artificial intelligence (AI), and automation is also creating a huge concern for the future of jobs. **Artificial intelligence (AI)** is the capability of a machine to imitate intelligent human behavior.³⁰ Google Maps and ride-sharing apps such as Lyft or Uber all use AI to tackle complex navigations. **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.³¹ 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 a McKinsey report published in 2020,³² two-thirds of senior executives surveyed said that they were increasing their investment in automation and AI.

Desh Deshpande, founder of the Deshpande Foundation, which supports impact through innovations that have significant social and economic impact, said, “The world is split between those that are automating and those that are being automated.” In other words, everybody will be affected by automation in the future.

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 15% of the global workforce, or 400 million workers, could be displaced by automation between 2016 and 2030.³³ But “displaced” does not mean “replaced.” Research suggests that technology will create more jobs than it eliminates.³⁴ Humans have been working alongside machines for many years. 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. Similarly, former lifters and stackers at Amazon have become robot operators managing the automated arms.³⁵

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 become more attainable. For instance, AI is already having a major impact on SDGs: It is being used to track the progress of re-forestation; to predict war conflict; and to devise smarter traffic signals to minimize pollution and congestion in cities.³⁶



A robot capable of giving hugs is just one of many new applications of artificial intelligence. How might AI affect different industries in the future?

Chip Somodevilla/Getty Images News/via Getty Images

Entrepreneurial Thinking and the Future of Business

The future of work as we have discussed here is also giving rise to a whole new generation of entrepreneurs. It's almost impossible not to be entrepreneurial to thrive in the workplace of the future, especially if 50% of today's jobs will disappear in the next two decades.³⁷ AI, robots, and automation may be making positive changes to how we work, but they could also give rise to unemployment if we don't embrace a different approach to business in this new world.

More than ever, we need to be in a position to create our own jobs—to be entrepreneurial. One thing that separates the human species from computers is our ability to imagine, create, and see the world in different and unique ways.³⁸ And entrepreneurs are especially good at imagining and executing on the ideas that move us forward, solving complex problems, and creating new jobs and wealth. An entrepreneurial approach to business is not just about making money, but an opportunity to make a real impact on the world. It means being creative, courageous, and energetic—and having a sense of purpose and being that will guide you to do great things. The journey starts here.

SOCIAL RESPONSIBILITY AND ETHICAL DECISION MAKING

By now, you should have a good understanding of what business is, the role it plays in solving complex business problems, and how it relates to the changing nature of work. This new workforce needs entrepreneurs of all kinds to navigate uncertainty, create new opportunities, and build or contribute to innovative businesses that do good and do well by aligning their mission with the UN SDGs.

The ability of business to do good and do well—to positively impact society and earn a profit—is at the core of **corporate social responsibility (CSR)**. By definition, CSR relates to how companies conduct business in a way that is sensitive to social, cultural, economic, and environmental issues.³⁹ Being socially responsible in business is about accountability, transparency, and understanding the impact business decisions have on the welfare of societies.

Though the UN SDGs are encouraging CEOs, entrepreneurs, managers, and employees of all types to pay more attention to the responsibility of business at the local, state, national, and international levels, social responsibility is just one aspect of doing good business today.

Ethical Decision Making

Ethical practice and decision making is the other side of the responsibility coin. General **ethics** is defined as the moral principles that guide our behavior, and those behaviors are based on accepted standards of what actions are right and wrong.⁴⁰ Similarly, **business ethics** relates to behaviors based on accepted standards in the business context and often relates to such issues as corporate governance, bribery, discrimination, and improper use or reporting of financial resources.⁴¹

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 “a situation in which a difficult choice has to be made between two courses of action, either of which entails transgressing a moral principle.”⁴² For example, an entrepreneur can keep costs down by manufacturing their new, hip T-shirts in a developing country. Costs can be kept down by doing so, which is great. But they quickly learn the T-shirts are being manufactured in a facility that is violating human rights—young women below the age of 15 are sewing the hipster-designed 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 in order 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 so you can try to feel what it's like to be in these situations and reflect on what you would do.

ETHICS IN BUSINESS

Holding Business to a Higher Standard

Milton Friedman, a 20th century economist, questioned in 1970 how a corporation, a collection of individuals with varying beliefs, could in fact be responsible for social change. He stated that the sole purpose of a business is to increase its profits, and that focus was important to economic prosperity. Fast-forward to 2018 and Larry Fink, as discussed in this chapter, who said, “Companies must ask themselves: What role do we play in the community? How are we managing our impact on the environment?”

Society is increasingly holding businesses socially responsible. Take McDonald's lawsuit as an example, in which the fast-food company was sued on account of making two teenagers obese; or Walmart's pair of lawsuits accusing the retail company of gender discrimination. On the other hand, companies like Patagonia and Ben & Jerry's are holding themselves accountable to stricter guidelines for being internally ethical while also being beneficial to the surrounding community and environment.

Corporations and their products are often the most visible examples of social ills (as well as social good), as their turning a profit can compete with (or complement) ethical social interests.

Critical Thinking Questions

1. Do companies have an ethical responsibility to be socially responsible?
2. Could an increased focus on people and planet issues increase revenue?
3. Should companies only attempt to be socially responsible in order to respond to consumer demands?

Sources: Friedman, M. [1970]. A Friedman doctrine. *New York Times*. Retrieved from <https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html>; Weinreb, S. [2018]. Mission-driven business? Here's why to become a B Corp, according to four certified companies. *Forbes*. Retrieved from <https://www.forbes.com/sites/saraweinreb/2018/04/30/mission-driven-business-here-are-six-reasons-to-consider-b-corp-certification/#21ed97d47def>

IN REVIEW

1.1 Define business and its role in generating economic and social value.

Business is an entity that is engaging in commercial, industrial, or professional activities that produce and/or sell goods or services for profit. **Commercial** indicates the selling of goods or services; *industrial activities* are the manufacturing of goods; and *professional activities* are primarily those that require trained or certified skills. 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. Different types of organizations include: startups, multinational corporations, growth companies, and nonprofit organizations.

1.2 Identify the five primary components of business.

In this textbook, we have mapped the five essential components of business to specific blocks. These blocks represent the fundamentals of business activity. The five components include: the offering, markets and customers, structure and purpose, people inside the business, and performance.

1.3 Illustrate how business can play a role in solving the most complex problems facing society today.

Today's organizations must place social and environmental impacts before profit to make a positive difference in the world, something that is called the triple bottom line, or the 3Ps: people, planet, and profit. Every organization has the opportunity to do well and to do good by following the *UN Sustainable Development Goals* (SDGs), which are 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, including climate change, chronic health conditions, and aging populations.

1.4 Relate the evolving practice of business to the changing nature of work.

The very nature of work is going through a major evolution. There are two main factors influencing these changes: the gig economy and AI. The *gig economy* is a labor market characterized by picking up short-term, flexible, freelance work known as gigs.

Artificial intelligence (AI) is the capability of a machine to imitate intelligent human behavior, and *machine learning* is a branch of AI; it is the science of getting computers to act without being explicitly programmed. AI and machine learning are leading us into a new age of automation.

1.5 Justify that good business is founded on social responsibility and ethical decision making.

Corporate social responsibility (CSR) relates to how companies conduct business in a way that is sensitive to social, cultural, economic, and environmental issues. Social responsibility is just one aspect of doing good business; the other is ethical practice and decision making.

Ethics are the moral principles that guide our behavior, and those behaviors are based on accepted standards of what actions are right and wrong. Business ethics relates to behaviors based on accepted standards in the business context and often relates to such issues as corporate governance, bribery, discrimination, and improper use or reporting of financial resources. Because what is right or wrong is often unclear, ethical dilemmas abound in business. An *ethical dilemma* is a situation in which a difficult choice has to be made between two courses of action, either of which entails transgressing a moral principle.

BUSINESSES DISCUSSED IN THIS CHAPTER

| Organization | UN Sustainable Development Goal |
|----------------------|--|
| Aflac | 11. Sustainable Cities and Communities |
| Afresh | 12. Responsible Consumption and Production |
| Bear Mattress | 12. Responsible Consumption and Production |
| Ben & Jerry's | 8. Decent Work and Economic Growth 11. Sustainable Cities and Communities 12. Responsible Consumption and Production 17. Partnerships to Achieve the Goals |
| Berkshire Hathaway | 7. Affordable and Clean Energy |
| Blackrock | 9. Industry, Innovation, and Infrastructure |
| Bombas | 10. Reduced Inequality |
| Deshpande Foundation | 9. Industry, Innovation, and Infrastructure |
| Exxon Mobil | 1. No Poverty 3. Good Health and Well-Being 4. Quality Education 5. Gender Equality 7. Affordable and Clean Energy 8. Decent Work and Economic Growth 12. Responsible Consumption and Production 13. Climate Action |
| Goodwill Industries | 8. Decent Work and Economic Growth |
| Kohler | 6. Clean Water and Sanitation 7. Affordable and Clean Energy 12. Responsible Consumption and Production |
| Lime | 11. Sustainable Cities and Communities |
| Naturebox | 3. Good Health and Well-Being |
| Patagonia | 13. Climate Action |
| Proctor & Gamble | 8. Decent Work and Economic Growth 12. Responsible Consumption and Production 13. Climate Action |
| REI | 15. Life on Land |
| Revolution Foods | 3. Good Health and Well-Being 12. Responsible Consumption and Production |
| Subaru | 9. Industry, Innovation, and Infrastructure 13. Climate Action 17. Partnerships to Achieve the Goals |
| Unilever | 3. Good Health and Well-Being 12. Responsible Consumption and Production |
| Walmart | 8. Decent Work and Economic Growth 12. Responsible Consumption and Production 13. Climate Action 14. Life Below Water |

KEY TERMS

| | |
|---|--|
| Artificial intelligence (AI) (p. 15) | Machine learning (p. 15) |
| Business ethics (p. 17) | Manager (p. 8) |
| Business model (p. 7) | Mid-size businesses (p. 6) |
| Business (p. 5) | Multinational corporation (p. 6) |
| Commercial (p. 6) | Nonprofit organization (p. 7) |
| Competitive environment (p. 7) | Offering (p. 7) |
| Corporate social responsibility (CSR) (p. 16) | Operations (p. 9) |
| Culture (p. 8) | Organization (p. 6) |
| Customers (p. 8) | Organizational structure (p. 8) |
| Dual-purpose (p. 10) | People (p. 9) |
| Economic value (p. 5) | Professional activities (p. 6) |
| Entrepreneurial (p. 5) | Profit (p. 5) |
| Ethical dilemma (p. 17) | Shareholders (p. 9) |
| Ethics (p. 17) | Small businesses (p. 6) |
| Gig economy (p. 13) | Social value (p. 6) |
| Growth company (p. 6) | Stakeholders (p. 9) |
| Industrial activities (p. 6) | Startup (p. 6) |
| Large businesses (p. 6) | Sustainable Development Goals (SDGs) (p. 11) |

BUSINESS CASE 1.2: ORDINARY HABIT—DOYLESTOWN, PENNSYLVANIA

SDG 12: Responsible Consumption and Production

Unprecedented challenges, from pandemics to war to economic instability, have forced many companies to rethink or reinvent their entire business models. Ordinary Habit is an example of one company that has managed not only to survive but to thrive in the face of unpredictable and continuous business change.

Founded in 2019 by mother–daughter duo Teresa and Echo Hopkins, Ordinary Habit began with a simple purpose: “to create artful objects, designed to be both fun and functional, that would help people access habitual moments of calm and connectedness.”

Armed with a strong belief in the transformative nature of “daily play,” Teresa and Echo set out to create a debut product that would be beautiful, sustainably produced, simple to use, and easy to transport. They decided to develop a series of limited-edition jigsaw puzzles that would function both as a reason to get together with friends and as a means to have a moment of “peace and time away from the digital world.”

They launched their first puzzle during a time in the pandemic when people were looking for fun things to do at home. In fact, Google searches for puzzles saw a 671% increase during March 2020, the start of the COVID-19 shutdown. One of the world’s top puzzle manufacturers, Ravensburger, reported that its puzzle sales increased by 370% in March 2020 from March 2019.

By using strikingly beautiful images and puzzle boxes designed to look like pieces of art, Ordinary Habit achieved early success, and has since expanded its collection to include matching cards and “on the go” games.

At first, Ordinary Habit struggled to find a manufacturer that understood its vision to produce its products in a sustainable way. Many manufacturers failed to take the mother–daughter team seriously and didn’t fully understand Ordinary Habit’s vision for a unique product—a vision of producing all Ordinary Habit products made with recycled materials. After many meetings, Teresa and Echo finally struck up a relationship with a female-owned European manufacturing business in Poland that provided them with exactly such a puzzle, artfully designed, and made only from recycled materials.

With a manufacturer secured and product samples in hand, the next step was to market and ship their products. As the business became increasingly successful, the team learned quickly how to market and sell their products, resolve shipping and handling issues, and navigate the changing business terrain.

This company that Teresa and Echo built is based on the belief that cultivating mindfulness is essential to bring about change. As a result, the duo have pledged to donate a percentage of their

profits to groups that support emotional health and well-being, such as the Loveland Foundation, which supports Black women and girls. Ordinary Habit anticipates continued growth and plans to introduce new products that inspire a love of puzzles and celebrate daily play while fostering small moments of mindfulness.

Critical Thinking Questions

1. Consider this chapter's discussion of the five primary components of business. How have the Ordinary Habit founders ensured that their offering stands out from others?
2. Who do you think are Ordinary Habit's primary customers? Explain your response.
3. This chapter discussed the triple bottom line of people, planet, and profit. In what specific ways does Ordinary Habit "do good while also doing well"? How else can a small company like Ordinary Habit support such goals?

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