



# CHAPTER 2

## THE CHARACTER OF THE MARKET

### 2.1 THE ECONOMIC ENVIRONMENT

### 2.2 BUSINESS DEVELOPMENT

### 2.3 MANAGEMENT AND LEADERSHIP

### ..... Careers in Marketing

#### AMERICAN HEART ASSOCIATION

Founded in 1924, the American Heart Association is the leading voluntary health organization in the country. The AHA is dedicated to fighting heart disease and stroke through public awareness and research.

The Youth Market Director represents, manages, and markets fundraising programs for youth to teachers and administrators. He or she is responsible for sales and service of youth fundraising products and manages and promotes youth awareness programs in local schools.

The position requires a bachelor's degree and two to three years' experience fundraising with a nonprofit organization. The candidate should be able to recruit, train, and manage volunteer groups. He or she should be knowledgeable of management, administration, sales, and marketing principles. Oral presentation skills and Spanish fluency are a must.

#### THINK CRITICALLY

1. Why do you think Spanish fluency is a requirement for a job that involves recruiting youth?
2. Why do you think the youth market director needs to know management principles?

### VIDEO

The Chapter 2 video for this module introduces the concepts in this chapter.



# PORTFOLIO PROJECT



## ORGANIZING AND PLANNING



### PROJECT OBJECTIVES

How do you keep track of all the items that go into your portfolio? How do you document what you learn in class so you can put it into practice? Marketing yourself requires good organizational skills. As you do the assignments in this book, you will complete activities that help you market yourself. You will also produce items for your portfolio. In this project, you will:

- Assemble an organizational binder.
- Plan the completion of assignments and portfolio items.
- Incorporate daily to-do lists, job search information, and other essential career development items into an organizer.

### GETTING STARTED

Read the Project Process below. Make a list of any materials you will need. Decide how you will get the needed materials or information.

- From the Portfolio Builder CD, print the templates you will use to plan the completion of assignments and portfolio items.
- Use the portfolio project and assignment checklists from the Portfolio Builder CD to list each item you need to complete.
- Schedule the tasks and their due dates.

### PROJECT PROCESS

**Part 1 LESSON 2.1** Create your own organizer by reusing an empty three-ring binder or by buying a new binder. Look through the organizer templates on the Portfolio Builder CD, and decide which ones you want to use. Consider the different options for calendars, task lists, and so on and select a format that will be easy to use.

**Part 2 LESSON 2.2** List the due dates for *Marketing Yourself* assignments and portfolio deadlines on your calendar. Create daily task lists based on upcoming assignments and deadlines. Do you have any job-search contacts yet? If you do, record that information in your organizer's address section.

**Part 3 LESSON 2.3** You can use your organizer to plan other areas of your life. Do you already have a job? If so, use a section of your organizer to list your work schedule.

### PROJECT WRAP-UP

Choose a partner and commit to keeping each other accountable for completing the *Marketing Yourself* assignments.

## Lesson 2.1

# THE ECONOMIC ENVIRONMENT

## GOALS

### UNDERSTAND

several basic economic concepts

### RECOGNIZE

the four types of economic utility



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## ECONOMICS 101

Everyone has economic experience. Each household is its own *economic institution*, whether there is one member or twenty. Have you bought products such as a cell phone, a new notebook, an Internet service provider, or lunch at a deli? If so, you have made *economic choices* as a consumer. Do you have a job? Labor—your work—is a *resource* in the economy.

How is economics defined? **Economics** is the social science that deals with the production, distribution, and consumption of goods and services. Economics is very important to marketers because economic factors such as consumer spending, income, and purchasing power directly influence marketing. If you see a clever commercial for a new computer and you've just gotten a promotion and a raise, you may decide to buy the computer. If your neighbor who just lost her job sees the same clever commercial, she will probably resist the marketing efforts of the computer company and decide to keep using her current computer.

## Marketing Matters

On weekends, Bharat Patel works at a men's clothing store in the mall. In addition to his hourly pay and a commission for sales, Bharat receives a 20% discount on any purchase he makes at the store. He is not required to wear a uniform to work, but he does have to wear clothes that are currently for sale at the store, which he must buy with his own money. What are the economic implications of this policy for the store? What are the implications for Bharat?

## Needs, Wants, and Scarcity

You probably never feel completely satisfied with your wardrobe or your music system or your book collection or even your dinner! You might like a few more shirts, CDs, books, or mashed potatoes. Most people have many *needs* and *wants*. In economic terms, a **need** is something that is required to live. A **want** is an unfulfilled desire. The resources for fulfilling everyone's needs and wants are limited. Unlimited needs and wants and limited resources make up the basic premise of economics: **scarcity**.

When resources are scarce, people have to make economic choices. Jonas may choose to go to the bookstore to buy a book he needs for a class project instead of buying a new video game. He has satisfied one need/want but has had to forego another. Businesses work to make *their* products and services the ones that people choose.

## Consumers and Producers

**Consumers** are people who choose to spend resources on goods and services intended for personal use and not for manufacture or resale.

- Your family recently purchased a pick-up truck. Your parents are the consumers if they decided to spend their money on this particular truck. Although you and your siblings may benefit from using the truck, most marketing efforts focus on consumers.



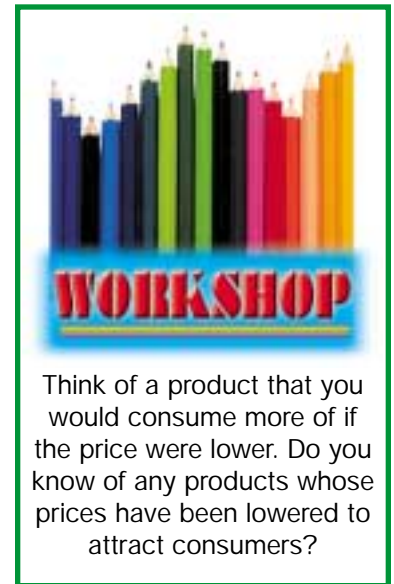
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**Producers** are individuals or companies who create valued products and exchange these products with consumers for scarce resources. A product may be a **good** (a physical product) or a **service** (specific skills or knowledge).

- A car manufacturing company is the producer of your family's new truck, which is a *good*.
- Your driver education teacher is a producer who delivers a *service*: teaching students how to drive. The resulting benefit is a driver who has learned how to operate a car safely according to the rules of the road and who is ready to be officially licensed because of this knowledge.

## Economic Resources

Economists refer to resources as *factors of production*. Resources of labor, capital, land, and entrepreneurship are used to produce goods and services that consumers want.



Think of a product that you would consume more of if the price were lower. Do you know of any products whose prices have been lowered to attract consumers?

**Labor** refers to human effort, or work. The labor force includes full- and part-time workers, those who do physical work, and those who are knowledge workers. If you hold a job, you sell your labor in the market-place.

**Capital** includes those items necessary to produce goods and services, including physical capital, such as buildings, machines, and tools. A dentist's drill would be physical capital. **Human capital** refers to an individual's knowledge and skills. The dentist's knowledge of teeth and gums and her dentistry skills are human capital.

**Land** includes the ground itself, as well as natural resources, such as water and minerals, used in production.

**Entrepreneurship** refers to the ability to envision new opportunities and undertake them. An **entrepreneur** is someone who organizes the start-up and takes the risks necessary to get a business started. If successful, an entrepreneur can increase the value of resources. Most businesses that you recognize began with entrepreneurship. Henry Ford recognized the opportunity for automotive transportation and acted on it by starting a business that is still producing vehicles today. Without entrepreneurship, new products and services are not developed.

## Supply and Demand

Once a business has developed a product or service, how does it know how much of the product or service to produce? What keeps a business from producing too many razor scooters and not enough graphic calculators? Why does a computer programmer earn more than a data entry worker? Understanding supply and demand can help answer these questions.

Businesses tend to produce more of products that they can sell at higher prices. The **law of supply** says that the amount of a product supplied is directly related to price: the higher the price, the more supplied. If a product can be sold at a higher price, entrepreneurs might consider entering the market, and companies already producing the product may be able to expand production.

How much are consumers willing to pay for products? Consumers tend to buy more of a product when it is sold at a lower price. The **law of demand** says that the amount of a product demanded relates inversely to price: the lower the price, the more demanded. For instance, if Sunita enjoys baseball, she might attend one game during the season if the ticket price is \$35. If the ticket price was only \$15, she might be willing to attend three games.



Define economics. Describe a recent situation in your life that had economic implications. What were those implications?

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# ECONOMIC UTILITY

When you watch a movie that has poor sound quality, you probably don't want to hurry back to that theater. On the other hand, when you order a cookbook on the Internet and it arrives in two days, you will be pleased. People choose products and services that give them the most *satisfaction*.

**Economic utility** is the amount of satisfaction a person gets from using a product or service. Because businesses know that satisfied customers lead to greater profitability, they want to provide high economic utility. Businesses, including marketing departments, work to provide utility in time, place, form, and possession.

- **Time utility** means making a product available at a time when consumers want it. Examples of time utility include a company making its products available “24/7” through an Internet site, a retail store remaining open until midnight on the days before the Christmas holiday for last-minute shoppers, and a doctor's office offering early morning and weekend appointments.



- **Place utility** involves making products available *where* consumers want them. A vending machine with fruit juices and bottled water near a practice field provides place utility, as do automated teller machines in grocery stores, movie theaters, and malls.
- **Form utility** occurs when the actual *form* of the product attracts consumers. A backpack with wide, sturdy straps, pockets for pencils, and a calculator made of water-resistant material provides form utility. You may not be interested in eating oats, raisins, and almonds separately, but in the form of a granola bar, you may find them a tasty snack.
- **Possession utility** means providing different ways for consumers to own a product. Possession utility may involve making products more affordable by offering credit, layaway, or debit cards. Some businesses rent or lease cars, furniture, electronics, camping supplies, tools, filled aquariums—you name it—to enable customers to consume products they would not otherwise find valuable.

## CHECKPOINT

Choose a product that you recently purchased. Did you purchase the product because it has time, place, form, and/or possession utility? Explain your answer.

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## Lesson 2.2

# BUSINESS DEVELOPMENT



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## GOALS

**DISCUSS** business and its place in the economy

**UNDERSTAND** business cycles and business conditions

**RECOGNIZE** important factors in the future of business

## THE WORLD OF BUSINESS

You go to the mall to buy new clothes for school. You visit the salon to get a haircut. At the pharmacy, you buy shampoo and deodorant. You stop at the bank to open a savings account.

Retail stores, hair salons, pharmacies, and banks are all businesses. Some sell products; others provide services. Some may be small, like the locally owned hair salon. Others may be large, like the multi-chain pharmacy.

Why should you examine business in more detail? You visit businesses often, and you will likely be employed by a business or perhaps start your own business at some point in your career. Learning the business basics can help you understand your own role as a consumer. You can recognize how marketing affects you. You can also see how you might market yourself to employers in the future.

## Marketing Matters

Lawrence Freeman has a part-time job after school as a cashier at a small pharmacy. Because he reads the advertisements in the Sunday newspaper, he knows that his company's prices are higher than the prices at the national pharmacy chains. His pharmacy does not advertise in the newspaper, but it does have an ad in the phone book. Lawrence likes his boss and would like to think of ways to help the pharmacy get more business. What suggestions could Lawrence make about how to increase business? How can Lawrence approach his boss without offending him or her?

# TrendSetters

## MIKE SALISBURY CREATIVE VISIONARY

**M**ike Salisbury knows how to get attention—for himself, for his clients, and for the products for which he develops marketing campaigns. In his book, *Art Director Confesses*, he writes that he sells “cool.” Cool designs for movies, such as the *Jurassic Park* logo, cool looks for magazines, such as *Rolling Stone*, cool product lines, such as the Levis 501 brand, even Michael Jackson’s cool solo look (remember the single white glove—that was Mike Salisbury’s idea).

When Salisbury was a child, his family moved at least once a year. He attended more than 20 schools between first grade and high school graduation. He learned quickly that he needed to “sell” himself to fit in to his new surroundings. He trained himself to be alert to what he calls the “cultural groove”—the local language, fashion, and customs. He got attention from his new teachers and classmates through his artwork. In grade school, he copied illustrations from the dictionary. In high school, he designed the class yearbook—and included his name as the designer.

Salisbury is known today for both his innovative design work and strong knowledge of marketing. He writes that his

design and communication abilities come from “taking things into [his] own hands” and that his ability to sell comes from overcoming his natural shyness.

He uses popular culture (“icons and styles we live with and communicate with nonverbally”) to sell products—toys, movies, surfboards, motorcycles, and music. He has also introduced popular culture to the “unaware” through photos and articles on custom cars, Disney art, Coca-Cola memorabilia, movie posters, and other media.

Salisbury’s advice to people starting out in marketing and design? “Use ideas. Do not rely on a personal style or pure design to get you through life. People relate to ideas.”

Mike Salisbury describes his dynamic combination of art and business as “executional magic.” With credentials including art director, agency creative director, designer, writer, photographer, teacher, and savvy marketer, Salisbury rocketed into business for himself with the launch of Mike Salisbury Communications in 1980. His creative vision is behind the success of many of the most successful pop icons of our time.

Source: *Art Director Confesses* by Mike Salisbury, published by RotoVision SA. Used with permission.



In groups, list three to five different businesses you use. What needs and wants do these businesses fulfill? Compare your group’s list to the lists of other groups.

## Business Defined

An organization that uses labor, capital, land, and entrepreneurship to produce goods and services at a profit is a **business**. A successful business will have to take risks and make a profit. A good business will contribute to the community.

**Taking a Risk** A business owner takes risks when operating a business. A risk is a possibility for loss. Economic risks are risks based on

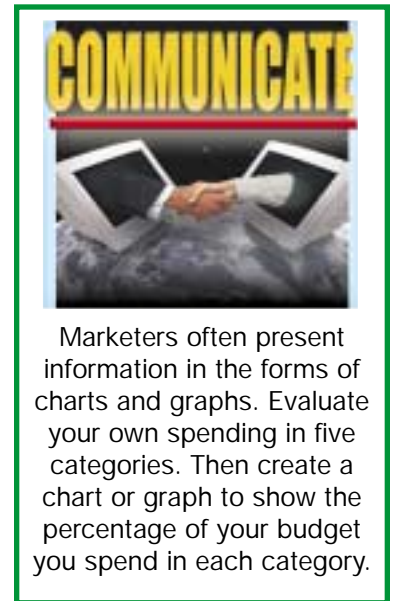
changes in business conditions, such as increased competition, new government regulations, and changes in consumer preferences. Other risks include natural risks, such as a storm that destroys a warehouse or store, and human risks, such as dishonesty in the form of customer or employee shoplifting. As business people consider new business opportunities, they have to evaluate the possible risks and plan how to overcome them.

**Making a Profit** Profits provide an incentive for operating a business. The ability to operate a business and make a profit helps contribute to the continued stability and success of our market economy.

Businesses generally strive to make the most money in sales of products with the lowest expenses possible; this is called **profit maximization**.

Businesses are better able to make a profit when they understand consumers' needs and wants. Marketing helps businesses understand those needs and wants. If consumers do not know about a product or where it is sold, they certainly cannot buy it. Consumers probably won't buy a product if they cannot afford it or don't see the value of purchasing it. If consumers don't buy the product, the business will not make a profit. And without a reasonable level of profit, the business cannot operate! It is all interconnected, which is why economics is considered to be a *social* science.

**Contributing to Society** Businesses are expected to be good citizens, pay taxes, and contribute to causes that are important to the community. For instance, many businesses contribute money and resources to charitable organizations. Businesses are also expected to consider their employees by providing fair wages, reasonable job security, and opportunities for growth. Businesses that want to succeed in the long run should also provide value by producing high-quality products and selling them at a fair price.



Marketers often present information in the forms of charts and graphs. Evaluate your own spending in five categories. Then create a chart or graph to show the percentage of your budget you spend in each category.

## CHECKPOINT

List the three types of risks faced by businesses, and provide an example of each type.

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## BUSINESS AND THE ECONOMY

**Economic conditions** are economic factors that influence consumer buying power and marketing strategies. These factors include business cycles, inflation, resource availability, and income.

**Business Cycles** Business cycles describe periods of prosperity, recession, and recovery in the economy. **Prosperity** is a time of higher incomes, increased production, and lower unemployment for employees.

**Recession** is a time of increasing unemployment, when consumers decrease their spending and businesses have fewer opportunities to sell their products. Economic **recovery** occurs when employment and business opportunities begin to increase again and consumers start spending more money.



## Marketing Math Connection

You have worked hard on a construction site all summer. At the end of the summer, your boss gives you a \$1,000 bonus and asks you to return to work next summer. You want to put your money into a savings account. If the interest rate is 8.25%, compounded yearly, approximately how long will it take for your money to double? Round to the nearest year.

### SOLUTION

The formula for simple interest is  $I = PRT$ , where  $I$  is the interest you want to earn,  $P$  is the principal you're starting with,  $R$  is the interest rate, and  $T$  is time (in years).

Turn the interest rate into a plain decimal .0825

Set up the formula so that  $1000 [I] = 1000 [P] \times .0825 [R] \times T$

$$1000 = 82.5T$$

$$1000 \div 82.5 = T$$

$$12.12 = T$$

12 = the number of years for your money to double

$I = \$1,000$  because you want your money to double—you want to earn interest equal to the principal. If you wanted your money to triple,  $I$  would be \$2,000.

Job opportunities abound during periods of prosperity. Those with sought-after skills may find that they are in great demand, receiving numerous offers of employment, and employees who are less skilled will also find positions available. During recession, even highly skilled workers may have trouble finding jobs that match their skills and meet their earning expectations.

**Inflation** Inflation refers to a continued rise in the price of products. Prices rise and fall at various times, but during an inflationary period, the effects of rising prices outweigh falling prices. Customers have to spend more on purchases; as a result, they cannot buy as much with their money.

**Income** Income is the amount of money earned from labor or the sale of products and services. The amount of income that individuals and businesses earn affects how much they can afford to spend and the types of products they buy. Businesses monitor income levels to assess opportunities for market development. During a time of prosperity, for example, many individuals earn more and spend more. Businesses recognize this prosperity and develop and market products and services that consumers will spend their extra income on.

**Resource Availability** The availability of resources is another important economic condition. When resources are readily available, their prices decrease. When resources are scarce, their prices increase. Do you ever notice gasoline prices? When there is plenty of oil, the price to fill up a gas tank is much lower than when the oil supply is scarce.

# CHECKPOINT

What happens during a recession?

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## THE FUTURE OF BUSINESS

Businesses will face many challenges in the new century, including globalization, technology, quality, and diversity.

**Globalization** **Globalization** means that products, services, labor, technology, and capital can move easily between businesses and countries all over the world. Businesses with a global perspective are able to consider new international marketing opportunities. A good that is bought in the United States but produced abroad is an *import*. Goods produced in this country and sold abroad are called *exports*.

**Technology** Technology continues to change rapidly, and businesses must adapt to new technologies to remain competitive. High-tech businesses must continue to develop new products, and businesses that use technology must be aware of advances that can affect their operations.

## Diversity in the WORKPLACE

### EMPOWERING PEOPLE THROUGH WORK

Goodwill Industries International is a network of 208 community-based, independent organizations that serves people with workplace disadvantages and disabilities by providing job training and employment services, as well as job placement opportunities and post-employment support. With locations in the United States, Canada, and 22 other countries, Goodwill helps people overcome barriers to employment and become independent, tax-paying members of their communities. In 2001, Goodwill Industries International served more than half a million individuals.

The people of Goodwill Industries believe that all work has dignity and the power to transform lives. Work is central to economic self-sufficiency and the ability to support one's family. The community is a better place when its citizens are able to work and contribute to the community's strength and success.

Goodwill agencies work closely with business and government to create career training and employment programs that reflect the needs of the community and local employers, and anticipate labor market trends. Services include Employee Matching, Customized Skills Training, Workplace Accommodation, and Temporary Service. Many local Goodwill agencies also consult with employers on hiring individuals with disabilities or inform them of special funding opportunities and tax benefits that may be available. Goodwill Industries also operates both in-house and community-based contracts for a wide variety of businesses and government clients.

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Changes in the American population will have a great effect in the workplace over the next 20 years. The size of the work force may increase as little as 16 percent, compared with 50 percent from 1980 to 2000. The share of workers with post-high-school education will also decline from today's rates. The number of workers born in America from ages 25 to 54 will not grow at all. Only immigration and later retirements will help businesses fill jobs. Already, from 1996 to 2001, foreign-born workers accounted for 89 percent of the growth in workers aged 25 to 54.

The Internet and e-commerce have changed the way some businesses operate by making products available directly to consumers. Businesses that use e-commerce technology must update their capabilities with new technology, while high-tech businesses that provide e-commerce capabilities continue to research more effective, efficient solutions.

**Quality** Consumers buy products with the expectation that the products will work as promised. In providing value to consumers, businesses must focus on offering quality goods and services. In the late 20th century, American businesses faced stiff competition from foreign companies, many of which sold high-quality products at very competitive prices.

As an employee, you will be expected to perform your duties effectively and contribute to organizational quality, whether you work on a production line, in the payroll department, or in customer service.

**Diversity** The composition of the workforce is changing and will continue to affect U.S. businesses. Issues such as age, race, and gender cannot be ignored. For example, businesses that strive to attract and retain women employees will have a larger pool of potential employees available.

Many businesses work with government agencies as well as high schools and colleges to promote opportunities for minorities to further their educations. The business community benefits from having a larger pool of well-trained employees, which can help businesses maintain a competitive advantage.

## The Job Market and You

As you develop a career direction and plan to enter the job market, understanding economic conditions can help you make decisions. Use sources such as the *Occupational Outlook Handbook* (<http://stats.bls.gov/oco>) to learn more about current employment and the job outlook for career fields you are interested in.

If Carlota were interested in a marketing career, she would learn from the *Occupational Outlook Handbook* that in 2000, managers in advertising, marketing, promotions, public relations, and sales held about 707,000 jobs. She would also learn that employment in these areas is expected to grow faster than average, increasing 21 to 35 percent between 2000 and 2010. Because of this expected growth, Carlota could estimate that demand for individuals trained in these areas will grow and that she should consider these fields.



Why do you think so many businesses wish to recruit more women and minority employees?

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## Lesson 2.3

# MANAGEMENT AND LEADERSHIP .....

## GOALS

**EXPLAIN**  
management  
functions

**UNDERSTAND**  
the development  
of management  
over time,  
including differ-  
ent management  
styles



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## THE FUNCTIONS OF MANAGEMENT

Have you ever chaired a committee, planned an event, or scheduled a party for a friend? Do you act as captain of a sports team or squad, hold office for your school's student government, or represent your class or school in an outside organization? Even if you have never officially held the title of "manager," you have probably acted as a manager at school, work, or even home. If you have organized, controlled, planned, or led others, you have performed managerial functions. Understanding management and the responsibilities of managers will help you not only as an employee, but also in successfully managing your job search.

**Management** means using people, material resources, and technology to get an organization's work done. To do this, managers perform four main functions: planning, organizing, leading, and controlling.

## Marketing Matters

Simone loves to shop at Wild Foods. The prices are good, the location is convenient, and the produce is high quality. After Simone checked out last week, she noticed that she had been charged more for apricots than the advertised price. When she took her receipt to the store manager, the manager apologized and refunded Simone's money completely. How was the store manager doing marketing for the grocery store? Can you think of a time when a manager's negative reaction affected the way you felt about a business? Describe the incident.

**Planning** means determining in advance what needs to be done. Managers set goals and make decisions that affect the operation of the business. As the manager of your job search, you will set goals for completing your portfolio and for preparing job search materials, such as your resume. You will also make decisions about the content of your portfolio and the companies you would like to contact.

**Organizing** refers to how work is arranged and how resources are grouped. For example, most businesses are organized into departments based on similar functions, such as marketing, accounting, and human resources. You should organize your job search and career development in a way that allows you to accomplish your planned goals.

**Leading** involves getting people to work together to accomplish the shared objectives of a business. A manager might motivate her team to complete a project ahead of schedule, exceeding a deadline and saving the company money. You might work together with your teacher, guidance counselor, or parents to lead a “team” that can help you with your job search or college planning.

**Controlling** refers to monitoring the progress of a business to make sure its goals are met. A package delivery company’s management team might use a computer system to monitor the percentage of packages received by customers the next day because that is one of the business’s goals. You might control your job search by using a weekly planner to keep track of your activities for the week, checking off each one as you complete it.

## Managerial Roles

Managers perform various roles within an organization. A manager’s **interpersonal role** involves interacting with others, communicating with employees, and coordinating with other departments in the organization. For example, if a project has a fast-approaching deadline, the manager may be responsible for making sure the team and supporting people in the organization are doing all that needs to be done to finish the work on time.

The **informational role** of a manager involves gathering relevant information and making it available to employees. Perhaps a company plans to hold a workshop on designing multimedia presentations. A good manager informs those employees who might benefit from the workshop.

When a manager makes decisions, such as allocating resources and hiring employees, he or she is performing a **decisional role**.



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The military and the church provided examples for early management theory. They even provided some terms we commonly associate with management, such as *strategy* and *mission*.

## Levels of Management

Larger businesses have different types of managers, depending on the function and role that a job requires. Businesses also have various management levels that correspond to their work responsibilities.

**Top managers** look at the “big picture” and plan the overall, long-term direction of an organization. A top manager makes decisions about



such issues as what steps to take when merging with another organization, how much money to invest in research, and where to build a new facility. Top managers are usually the senior executives in a company: chief executive officers (CEOs), chief financial officers (CFOs), presidents, and vice presidents.

**Middle managers** implement the plans and decisions made by the top managers. They have a narrower focus than top managers, considering months rather than years when

planning their activities. They may be responsible for accomplishing plans and coordinating the activities of lower-level managers. They have titles such as marketing manager, plant manager, and regional manager.

**First-line managers** manage the day-to-day operations of an organization, including supervising employees. They have a specific, narrow focus and must ensure that work is done on time. Because of this, they tend to spend most of their time overseeing employees. They have titles such as office manager, shift supervisor, and store manager. Most new management employees are first-line managers.



Assume you manage an office supply store. Give an example of each of the four basic functions of management as they relate to the start of the new school year.

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# MANAGEMENT EVOLUTION AND STYLES

Management was transformed into a distinct field with the transition to an industrialized society. Instead of owners managing their family farms and small businesses, managers were needed to manage many aspects of the big businesses created during industrialization. Today, management continues to evolve. Technology has changed production processes, the way information is processed and stored, and the way employees communicate.

As companies adapt to the changing needs of the marketplace, adaptive management approaches lead companies to success.

## Classical Perspective

The classical perspective emerged out of the Industrial Revolution in the late 19th and early 20th centuries, as machinery changed the way work was done. The classical perspective includes scientific management and administrative management. Many people thought that effective organizations should run like machines. Great economic expansion occurred in the U.S., but employees were not always treated well by businesses.



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### Scientific management

focused on management as a science centered on production and worker efficiency. Frederick Taylor, who wrote *The Principles of Scientific Management* in 1913, believed that the performance of individual workers could be improved if managers followed four steps. He believed managers should:

- Break the job down into small pieces and develop a science, or best way, to do each element of the job
- Select and train the most qualified workers
- Supervise workers to ensure they follow the proper procedures
- Continue to plan the work, establishing a level of pay and performance

Taylor's methods increased efficiency and provided more objective standards for workers, but some workers felt it was a strategy for businesses to hire fewer workers and get more work out of each individual.

**Administrative management** focused on managing the whole organization for efficiency and effectiveness. The management functions of planning, organizing, leading, and controlling were identified by Henri Fayol, a French industrialist. Fayol also developed principles for effective management, including the division of work, authority, discipline, and initiative. Max Weber, a German sociologist, explained the concept of bureaucracy, which refers to specific rules called standard operating procedures, and levels of authority in organizations.



Develop a list of characteristics that an effective manager should have. Share your list with your classmates.

## BUSINESS AND INVESTOR INFORMATION SITES

Investor and business information sites are reliable sources for finding a quick snapshot of a specific organization (with links to more detail if you need it). These snapshots typically include products, locations, executive management, competitors, job openings, recent news articles and press releases, and, of course, the company's recent performance in the stock market.

Use these sites to research a company before an interview. You'll also want to look at each company's own web site, but these investor and business information sites provide information from additional resources, including newspapers and magazines. The information on these sites is written by professional analysts and business researchers, so put their work to work for you!

- Hoover's Online: [www.hoovers.com](http://www.hoovers.com)
- Investor's Business Daily: [www.ibd.com](http://www.ibd.com)
- Morningstar: [www.morningstar.com](http://www.morningstar.com)
- Securities Exchange Commission: [www.sec.gov](http://www.sec.gov)
- Streetlink: [www.streetlink.com](http://www.streetlink.com)

## Behavioral Perspective

While the classical perspective portrayed organizations as similar to machines, the behavioral perspective that emerged out of the Great Depression of the 1930s focused on the *behaviors* of individuals in the workplace and the ways managers could effectively motivate employees.



Instead of being viewed as tools, workers were viewed as resources that could benefit their organizations. Mary Parker Follett, an early management theorist, suggested that workers know the best way to improve their jobs and should be involved in job analysis. The behavioral perspective studied employee motivation.

The **human relations** movement stressed the importance of relationships in organizations. Managers' concern for

workers would help workers feel more satisfied with their jobs and with the organizations for which they worked. Increased satisfaction would then lead to improved performance. The **human resources** model values the individual employee by focusing on how businesses can encourage communication and participation by workers.

## Quantitative Perspective

The quantitative perspective, which emerged after World War II, focused on techniques such as mathematical models for management. Managers applied the mathematical approaches they used during the war to businesses in areas such as decision-making and planning.

**Management science** uses mathematical models and computer simulations to represent systems or processes within organizations. Simulations provide realistic information that can guide decision making, such as how many repair persons should be on call or how they should be sent out to handle repairs. **Operations management**, a form of management science, focuses on all aspects of production, such as managing inventory and planning shipping routes.

## Contemporary Perspectives

Contemporary perspectives recognize that there is no single right way to manage an organization. The classical, behavioral, and quantitative perspectives all influence the contemporary perspectives.

**Systems theory** considers the organization as a system with four basic elements:

- Inputs from the environment (external resources)
- Transformation (conversion of inputs into products)
- Outputs (finished products)
- Feedback about the process

**Contingency theory** suggests that managers must respond to the environment.

Because a manager's behavior and decisions are based on unique situations, the contingency theory suggests that there is no single correct way to manage an organization.



## Management Styles

As management evolved, theories relating to management styles evolved as well. Douglas McGregor, a key figure in the human relations movement, defined Theory X and Theory Y, and William Ouchi, who researched culture and management in America and Japan, proposed Theory Z:

- **Theory X.** Managers assume that people dislike work. Therefore, people will try to avoid it and must be coerced or controlled into working. Theory X managers also believe that people prefer to be directed in their work-related activities, don't want to take responsibility, and lack ambition. Theory X managers have a negative view of employees.

- **Theory Y.** Managers assume that people do not inherently dislike work but view it as a part of life. They believe that if people are committed to organizational objectives, they will be motivated and self-directed to reach them. According to Theory Y, most people will seek and accept responsibility. People are bright and creative, but most organizations do not fully utilize their potential. Theory Y managers have a more positive view of employees.
- **Theory Z.** Managers assume that people can be committed and focused and can work together effectively. They stress long-term employment, work groups, and a focus on the organization. Theory Z managers view employees very positively.

## Likert's Management Styles

About fifty years ago, Dr. Rensis Likert of the University of Michigan identified four main management styles:

- **Exploitative-Authoritative.** Top-level management has most of the responsibility. Employees are motivated to work by threats, perhaps of job loss or pay cuts. Communication and teamwork are not considered important.
- **Benevolent-Authoritative.** Managers hold responsibility within the organization, communication and teamwork are not valued, and managers motivate employees through rewards. This style is similar to a master-servant relationship.
- **Consultative.** Communication and teamwork hold some value, and managers have some trust in the ability of subordinates. Employees are motivated by rewards and are allowed some involvement in the organization.
- **Participative-Group.** Managers have confidence in subordinates, and communication and teamwork are highly valued. Employees help set goals for the organization and are motivated by rewards based on goals they have contributed to developing. Likert considered this management style to be the most effective.



How did managers of the classical perspective view workers? Discuss the implications of this perspective.

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# CHAPTER 2 ..... REVIEW

## VOCABULARY BUILDER

Choose the term that best fits the definition. Write the letter of the answer in the space provided. Some terms are not used.

- a. capital
- b. first-line manager
- c. goods
- d. human capital
- e. income
- f. inflation
- g. need
- h. profit maximization
- i. prosperity
- j. recession
- k. recovery
- l. scarcity
- m. scientific management
- n. services
- o. Theory Z
- p. top management
- q. wants

- \_\_\_ 1. A belief that there are clear and scientific ways to manage organizations and individuals
- \_\_\_ 2. Unfulfilled consumer desires
- \_\_\_ 3. An individual's knowledge and skills
- \_\_\_ 4. Management level that focuses on the "big picture" and plans the overall, long-term direction of an organization
- \_\_\_ 5. Belief that managers focus on the organization and long-term employment and assume people are committed and can work together effectively
- \_\_\_ 6. Business cycle characterized by higher incomes, increased production, and lower unemployment rates
- \_\_\_ 7. Manages day-to-day operations, including employee supervision
- \_\_\_ 8. anything required to live
- \_\_\_ 9. When businesses make the most money and spend the least
- \_\_\_ 10. Physical products, such as shoelaces and refrigerators
- \_\_\_ 11. The economic condition caused by unlimited needs and wants and limited resources to fill those needs and wants



## REVIEW CONCEPTS

12. List and explain the four factors of production, or resources.

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13. Briefly describe the evolution of management.

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14. What are the four economic utilities? What does each involve?

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15. What are three roles a manager can have? What activities are involved in each role?

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16. If a manager attends a meeting with managers from other departments, then shares this information at staff meeting with his employees, what managerial role is he performing?

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17. Explain the relationship between supply and market price.

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18. Explain the relationship between demand and market price.

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19. What level of manager would be responsible for giving an employee a performance review?

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20. Compare and contrast the classical perspective on management with the behavioral perspective.

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21. What are some examples of economic risk?

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22. Is quality something you are responsible for as an employee? Explain.

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23. If you work under a manager who has a participative-group management style, how are you treated?

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24. Do you think management is a science? Why or why not? Explain your answer.

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# 2 CHAPTER REVIEW

## APPLY WHAT YOU LEARNED

25. No employee likes to hear that he or she is not performing well on the job. Ferdinand is no different. When his manager tells him that he is making some mistakes on order forms, Ferdinand is embarrassed and angry. But Ferdinand's best friend, Marty, tells him that his manager is doing a good job and that Ferdinand should be thankful rather than angry. Is Marty right? Why or why not? Why is it important for managers to perform the *controlling* function?

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26. How do marketers affect the relationship between supply and demand? How does supply and demand affect the employment market, including salaries?

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27. Do you have a job? Can you identify what management style your manager uses? If you don't have a job, talk to a parent or grandparent. What kind of managers does he or she deal with?

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28. Anna Nordquist is going to buy her parents a flat-panel computer monitor for their anniversary. She shops around at different Internet sites and narrows it down to two choices: one on a major electronic retailer's web site and one on a popular auction site. The one from the retailer is of lesser quality and will cost \$300 plus \$15 to ship from the warehouse in Missouri. The one on the auction is of higher quality, will cost \$200, and will be shipped directly from the factory overseas for \$50. If Anna purchases the second monitor, from what future-thinking business trends is she benefiting?

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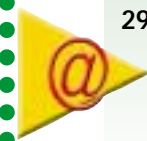
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## MAKE CONNECTIONS

29. **TECHNOLOGY** Look at the web sites of five multinational companies. What kind of community involvement do these businesses have? If you admire what a company is doing, send them an encouraging e-mail. If you have a suggestion for how a company can contribute to society, send an e-mail.



**30. GEOGRAPHY** Go to your local supermarket or home goods store and identify items from 10 different countries. Then look at a map and note where those different countries are located. Can you think of some of the benefits of global business?

**31. ETHICS** Are there any reasons why treating human beings as machines is unethical? What are they? Why do you think that management has moved beyond this approach?

**32. ORAL HISTORY** The business world was very different 50 years ago. Perhaps you have a grandfather or an uncle or family friend who made a living as a door-to-door salesman. Find someone who had a career in business, marketing, or sales at least 40 years ago. Interview that person and report your findings in a written report. Or, produce an audio piece.

**33. SOCIAL STUDIES** In the United States, workplace diversity is supported by legislation.

- The **Equal Pay Act** of 1963 states that employers must base pay rates on skill, effort, and responsibility, regardless of gender.
- The **Civil Rights Act** of 1964 prohibits employment discrimination because of race, gender, national origin, or religion.
- The **Age Discrimination in Employment Act** of 1967 prohibits employment discrimination against people ages 40 and older.
- The **Americans with Disabilities Act** of 1990 prohibits employment discrimination based on mental and physical disabilities and requires that employers not only hire, but also accommodate, persons with disabilities.

Use the Internet to research one of these acts. For example, do a news search for recent court cases that have involved workplace discrimination. In the future, how could the companies involved better implement diversity efforts to prevent employee dissatisfaction and lawsuits?

If you are interested in the rights of workers with disabilities, go to the web site of the U.S. Department of Labor's Office of Disability Employment Policy ([www.dol.gov/odep/](http://www.dol.gov/odep/)) and search on "ADA." Read one of the articles about dispelling myths about the Americans with Disabilities Act, or read about the New Freedom Initiative.

Prepare an oral report or a PowerPoint presentation about the most interesting or unexpected things you learned through your research.



## MARKETING MANAGEMENT ROLE PLAY

You are the customer service department manager for a new luxury car dealership. Sales associates at your car dealership are expected to meet sales quotas while gaining the trust and loyalty of customers. They must also market the car dealership as an honest operation that offers excellent customer service after the sale.

The general manager of the car dealership recognizes the important relationship between the sales and customer service departments and has asked you to develop a *Top Ten List of Characteristics Possessed by the Best Sales Associates* at a car dealership. These characteristics are the personal qualities that sales personnel must present to gain customer trust. In addition, the general manager has asked you to outline a plan for maintaining a positive long-term relationship with customers.

You will have 10 minutes to present your plans to the general manager, and the general manager will have 5 minutes to ask questions.

