МИНИСТЕРСТВО ОБРАЗОВАНИЯ РЕСПУБЛИКИ БЕЛАРУСЬ

УЧРЕЖДЕНИЕ ОБРАЗОВАНИЯ
«БРЕСТСКИЙ ГОСУДАРСТВЕННЫЙ ТЕХНИЧЕСКИЙ УНИВЕРСИТЕТ»

КАФЕДРА ИНОСТРАННЫХ ЯЗЫКОВ

Introduction to Enterprise Economics and Management

Сборник текстов по обучению профессионально-ориентированному чтению на английском языке

для студентов специальности
1-25 01 07 «Экономика и управление на предприятии»

Брест • 2021

УДК 811.111
ББК 81.2 Англ

Методические указания составлены в соответствии с Учебной программой и предназначены для студентов специальности 1-25 01 07 «Экономика и управление на предприятии» экономического факультета дневной формы получения образования и направлены на развитие навыков чтения специальной литературы на английском языке.

Содержание текстов дает достаточно полное представление о функционировании предприятия и организации его деятельности. Тематика аутентичного тестового материала включает такие разделы, как «Экономика и бизнес», «Основные разделы экономики», «Легальные формы организации бизнеса», «Основные активы предприятия», «Управление людскими ресурсами».

Составитель: В. И. Рахуба, заведующий кафедрой иностранных языков
Брестского государственного технического университета,
канд. филол. наук, доцент

Table of *Contents*

Unit 1. ECONOMICS AND BUSINESS

Text 1. Why Is Apple Successful?

In 1976 Steve Jobs and Steve Wozniak created their first computer, the Apple I. They invested a mere $1,300 and set up business in Jobs' garage. Three decades later, their business — Apple Inc. — has become one of the world's most influential and successful companies. S. Jobs and S. Wozniak were successful entrepreneurs: those who take the risks and reap the rewards associated with starting a new business enterprise. Did you ever wonder why Apple flourished while so many other young companies failed? How did it grow from a garage start-up to a company generating over $233 billion in sales in 2015? How was it able to transform itself from a nearly bankrupt firm to a multinational corporation with locations all around the world? You might conclude that it was the company's products, such as the Apple I and II, the Macintosh, or more recently its wildly popular iPod, iPhone, and iPad. Or, you could decide that it was its dedicated employees, management's wiliness to take calculated risks, or just plain luck – that Apple simply was in the right place at the right time.

Before we draw any conclusions about what made Apple what it is today and what will propel it into a successful future, you might like to learn more about Steve Jobs, the company's cofounder and former CEO. Steve Jobs was instrumental in the original design of the Apple I and, after being ousted from his position with the company, returned to save the firm from destruction and lead it onto its current path. Growing up, Steve Jobs had an interest in computers. He attended lectures at Hewlett-Packard after school and worked for the company during the summer months. He took a job at Atari after graduating from high school and saved his money to make a pilgrimage to India in search of spiritual enlightenment. Following his India trip, he attended Steve Wozniak's "Homebrew Computer Club" meetings, where the idea for building a personal computer surfaced. "Many colleagues describe Jobs as a brilliant man who could be a great motivator and positively charming. At the same time his drive for perfection was so strong that employees who did not meet his demands [were] faced with blistering verbal attacks." Not everyone at Apple appreciated Jobs' brilliance and ability to motivate. Nor did they all go along with his willingness to do whatever it took to produce an innovative, attractive, high-quality product. So at age thirty, Jobs found himself ousted from Apple by John Sculley, whom Steve Jobs himself had hired as president of the company several years earlier. It seems that J. Sculley wanted to cut costs and thought it would be easier to do so without Jobs around. Jobs sold $20 million of his stock and went on a two-month vacation to figure out what he would do for the rest of his life. His solution: start a new personal computer company called NextStep. In 1993, he was invited back to Apple (a good thing, because neither his new company nor Apple was doing well).

Steve Jobs was definitely not known for humility, but he was a visionary and had a right to be proud of his accomplishments. Some have commented that "Apple's most successful days occurred with Steve Jobs at the helm."

S. Jobs did what many successful CEOs and managers do: he learned, adjusted, and improvised. Perhaps the most important statement that can be made about him is this: he never gave up on the company that once turned its back on him.

Text 2. The Foundations of Business

As the story of Apple suggests, today is an interesting time to study business. Advances in technology are bringing rapid changes in the ways we produce and deliver goods and services. The Internet and other improvements in communication (such as smartphones, video conferencing, and social networking) now affect the way we do business. Companies are expanding international operations, and the workforce is more diverse than ever. Corporations are being held responsible for the behavior of their executives, and more people share the opinion that companies should be good corporate citizens. Because of the role they played in the worst financial crisis since the Great Depression, businesses today face increasing scrutiny and negative public sentiment.

Economic turmoil that began in the housing and mortgage industries as a result of troubled subprime mortgages quickly spread to the rest of the economy. In 2008, credit markets froze up and banks stopped making loans. Lawmakers tried to get money flowing again by passing a $700 billion Wall Street bailout, now-cautious banks became reluctant to extend credit. Without money or credit, consumer confidence in the economy dropped and consumers cut back on spending. Unemployment rose as troubled companies shed the most jobs in five years, and 760,000 Americans marched to the unemployment lines. The stock market reacted to the financial crisis and its stock prices dropped by 44 percent while millions of Americans watched in shock as their savings and retirement accounts took a nose dive. In fall 2008, even Apple, a company that had enjoyed strong sales growth over the past five years, began to cut production of its popular iPhone. Without jobs or cash, consumers would no longer flock to Apple's fancy retail stores or buy a prized iPhone. Since then, things have turned around for Apple, which continues to report blockbuster sales and profits. But not all companies or individuals are doing so well. The economy is still struggling, unemployment is high (particularly for those aged 16 to 24), and home prices have not fully rebounded from the crisis.

As you go through the course with the aid of this text, you'll explore the exciting world of business. We'll introduce you to the various activities in which business people engage – accounting, finance, information technology, management, marketing, and operations. We'll help you understand the roles that these activities play in an organization, and we'll show you how they work together. We hope that by exposing you to the things that businesspeople do, we'll help you decide whether business is right for you and, if so, what areas of business you'd like to study further.

Getting Down to Business

A business is any activity that provides goods or services to consumers for the purpose of making a profit. Be careful not to confuse the terms *revenue* and *profit*. Revenue represents the funds an enterprise receives in exchange for its goods or services. Profit is what's left (hopefully) after all the bills are paid. When Steve Jobs and Steve Wozniak launched the Apple I, they created Apple Computer in Jobs' family garage in the hope of making a profit. Before we go on, let's make a couple of important distinctions concerning the terms in our definitions. First, whereas Apple produces and sells *goods* (Mac, iPhone, iPod, iPad, Apple Watch), many businesses provide *services*. Your bank is a service company, as is your Internet provider. Hotels, airlines, law firms, movie theaters, and hospitals are also service companies. Many companies provide both goods and services. For example, your local car dealership sells goods (cars) and also provides services (automobile repairs). Second, some organizations are not set up to make profits. Many are established to provide social or educational services. Such not-for profit (or nonprofit), organizations include the United Way of America, Habitat for Humanity, the Boys and Girls Clubs, the Sierra Club, the American Red Cross, and many colleges and universities. Most of these organizations, however, function in much the same way as a business. They establish goals and work to meet them in an effective, efficient manner. Thus, most of the business principles introduced in this text also apply to nonprofits.

Text 3. Business Participants and Its Functional Areas

We begin our discussion of business by identifying the main participants of business and the functions that most businesses perform, and then will gradually comė we'll discuss the external factors that influence a business' activities.

Participants. Every business must have one or more owners whose primary role is to invest money in the business. When a business is being started, it's generally the owners who polish the business idea and bring together the resources (money and people) needed to turn the idea into a business. The owners also hire employees to work for the company and help it reach its goals. Owners and employees depend on a third group of participants – customers. Ultimately, the goal of any business is to satisfy the needs of its customers in order to generate a profit for the owners.

Stakeholders. Consider your favorite restaurant. It may be an outlet or franchise of a national chain (more on franchises in a later chapter) or a local "mom and pop" without affiliation to a larger entity. Whether national or local, every business has stakeholders – those with a legitimate interest in the success or failure of the business and the policies it adopts. Stakeholders include customers, vendors, employees, landlords, bankers, and others. All have a keen interest in how the business operates, in most cases for obvious reasons. If the business fails, employees will need new jobs, vendors will need new customers, and banks may have to write off loans they made to the business. Stakeholders do not always see things the same way – their interests sometimes conflict with each other. For example, lenders are more likely to appreciate high profit margins that ensure the loans they made will be repaid, while customers would probably appreciate the lowest possible prices. Pleasing stakeholders can be a real balancing act for any company.

The activities needed to operate a business can be divided into a number of functional areas. Examples include: management, operations, marketing, accounting, and finance. Each of these areas is going to be briefly explored below.

Management. Managers are responsible for the work performance of other people. Management involves planning for, organizing, leading, and controlling a company's resources so that it can achieve its goals. Managers plan by setting goals and developing strategies for achieving them. They organize activities and resources to ensure that company goals are met and staff the organization with qualified employees and managers lead them to accomplish organizational goals. Finally, managers design controls for assessing the success of plans and decisions and take corrective action when needed.

Operations. All companies must convert resources (labor, materials, money, information, and so forth) into goods or services. Some companies, such as Apple, convert resources into tangible products: Macs, iPhones, etc. Others, such as hospitals, convert resources into intangible products e.g., health care. The person who designs and oversees the transformation of resources into goods or services is called an operations manager. This individual is also responsible for ensuring that products are of high quality.

Marketing. Marketing consists of everything that a company does to identify customers' needs (i.e. market research) and design products to meet those needs. Marketers develop the benefits and features of products, including price and quality. They also decide on the best method of delivering products and the best means of promoting them to attract and keep customers. They manage relationships with customers and make them aware of the organization's desire and ability to satisfy their needs.

Accounting. Managers need accurate, relevant and timely financial information, which is provided by accountants. Accountants measure, summarize, and communicate financial and managerial information and advise other managers on financial matters. There are two fields of accounting. Financial accountants prepare financial statements to help users, both inside and outside the organization, assess the financial strength of the company. Managerial accountants prepare information, such as reports on the cost of materials used in the production process, for internal use only.

Finance. Finance involves planning for, obtaining, and managing a company's funds. Financial managers address such questions as the following: How much money does the company need? How and where will it get the necessary money? How and when will it pay the money back? What investments should be made in plant and equipment? How much should be spent on research and development? Good financial management is particularly important when a company is first formed, because new business owners usually need to borrow money to get started.

Text 4. External Forces that Influence Business Activities

Apple and other businesses don't operate in a vacuum: they're influenced by a number of external factors. These include the economy, government, consumer trends, technological developments, public pressure to act as good corporate citizens, and other factors. Collectively, these forces constitute what is known as the "macro environment" – essentially the big picture world outside over which the business exerts very little if any control. One industry that's clearly affected by all these factors is the fast-food industry. Companies such as Taco Bell, McDonald's, Cook-Out and others all compete in this industry. A strong economy means people have more money to eat out. Food standards are monitored by a government agency, the Food and Drug Administration. Preferences for certain types of foods are influenced by consumer trends (fast food companies are being pressured to make their menus healthier). Finally, a number of decisions made by the industry result from its desire to be a good corporate citizen. For example, several fast-food chains have responded to environmental concerns by eliminating Styrofoam containers.

Of course, all industries are impacted by external factors, not just the food industry. As people have become more conscious of the environment, they have begun to choose new technologies, like all-electric cars to replace those that burn fossil fuels.

Both established companies, like Nissan with its Nissan Leaf, and brand new companies like Tesla have entered the market for all-electric vehicles. While the market is still small, it is expected to grow at a compound annual growth rate of 19.2% between 2013 and 2019.

It is very essential for a business organization to engage and manage with its environment since the business environment direct connection with the organization. The efficacy of interaction of the organization with its business environment is one of the primary causes to establish its success or failure.

All the organizations are imposed with a variety of environmental restrictions. The company has very little leverage on the environment and hence, it becomes essential for the enterprise to ascertain with the environment of its operation and conceive its policies with regard to those forces in the environment.

It is a true fact that every policy undertaken by an organization is always influenced by its environment. A number of challenges are foisted on the company by the environment it forces enormous effects and impact on the extension and course of the organization exercises. In the US the nature of the business environment is ruled by the government guidelines so as to guarantee a specific degree of monetary life to the individuals.

Text 5. Factors Affecting Business Environment

Business is influenced by various elements conjointly build the business environment. These incorporate economic, social, political, market, legal and technological factors. Hence, the business environment is in total the sum up of all the external factors which affect the enterprise and its business operations. These forces comprise of creditors, customers, government, competitors, political parties, socio-cultural organizations, national and international organizations. Some of those forces directly affect the business while some forces are of the nature that they affect the business indirectly. The business environment is disaggregated into 3 main classes: internal environment, operational environment, general/external environment. As the business environment affects business success, development strategy, scale, vision, the leaders should be fully aware and know with those issues. Once they will understand both the positive and negative effects, they will be able to formulate appropriate strategies to deal with foreseen or unforeseen situations. There are several internal and external factors according to size, type, and business status.

The internal factors are regarded as anything/ any issues within the organization under its control whether they are palpable or impalpable. After determining these factors are further categorised into the strengths and weaknesses of the company. If any element tends to bring a positive effect to the organization, it is grouped into strengths. Whereas, those elements which barricade the business growth are considered as a weakness of the company. The internal factors are usually studied in SWOT Analysis in the risk management process.

There are 14 types of internal factors affecting the business environment: plans & policies, human resource, corporate image and brand equity, labour management, internal technology resources & dependencies, quality and size of infrastructure, financial forecast, value proposition, financial and marketing resources, plant/machinery/equipment (physical assets), interpersonal relationship with employees, organizational structure/code of conduct, task executions or operations, founders relationship and their power of decision making.

In contrast to the internal factors, the external environmental factors affect the organization from the outer side on which there is no control of the company. There are various standards deemed as external factors. *Micro factors*: customers, competitors, talent, input or suppliers, marketing & media, public. *Macro factors*: political, legal, social, economic, market, technological. Out of all the numerous kinds of internal and external factors affecting the business, the macro external factors hold the most value as they are completely out of control of the organization. Thus, one should thoroughly understand those factors.

Political factors affecting business. There are several external environmental factors which affect the business process of an organization. It is essential for managers to evaluate every factor thoroughly. The objective is always to take superior decisions for the progress of the business. Out of various external factors, the political factor is also a member of the list. The political factors are generally given more value. Diverse aspects of government policies can affect the business. The managers should be aware of how the forthcoming enactments can affect their business activities. They should follow the laws properly. The political factors are capable of affecting the business organizations in several ways. It is likely to be able to add on a risk factor which can lead to a major loss. The business managers should know that political factors are capable to change results. These can also impact government policies at both local levels to the national level. The political environment is mayhap lie among the least anticipatable factors in the business environment. Following are the political factors affecting business: political stability, impact on economy, mitigation of risk, changes in regulation, bureaucracy, tariffs, corruption level, data protection law, foreign trade regulations, trade control, etc.

Legal factors affecting business. Legal factors are the external factors which allude to how the law influences the manner in which organizations work and clients carry on. Item transportation, net revenues, and viability of specific markets are for the most part instances of things which might be impacted by the legal factors.

Legal factors can choose whether or not there is a business behind selling a specific item (maybe medications, or sharp articles), and can likewise influence the contrivances through which an organization stocks their inventory or cooperates with the client. Common examples of the Legal Factors affecting Business are as follows: organizational law, securities law, consumer law, copyright law, fraud law, discrimination law, contract law, import/export law, health and safety law, immigration laws, employment law, government procurement laws, pyramid scheme legality, tax restrictions for particular types of business, weight and measures laws, age restrictions for buying particular goods., product description laws.

Social factors affecting business. Society is consistently changing indubitably. The ever-evolving fashion and tastes are the most relevant instances for these changes. One of the most noteworthy contrasts is the developing prevalence of internet-based life. Social networking sites such as Facebook have gotten well known among the present generation's youngsters.

The new younger generation differs from the traditional ones in several ways like youngsters like to shop online using digital media whereas the old people stay stuck to their traditional methods only. The impact of changing society is regularly examined. The business managers likewise comprehend that these changing variables have a cost for organizations as well. Changes in the social variables can affect a firm from various perspectives. In order to understand the impact in a better way, we should know about social factors too. These are some of the major social factors which impact customer needs and size of markets: lifestyles, health consciousness, social classes, minorities, religion and beliefs, education level, buying habits, family size and structure, population growth rate, emphasis on safety, average disposable income level, approach for saving and investing, immigration and emigration rates, approach for green or ecological products, attitudes toward renewable energy, behaviour towards work, career, leisure and retirement, outlook for customer service and product quality.

Economic factors affecting business. It is very important to understand how economic factors influence business to settle on brilliant decisions and controlling your organization to more noteworthy statures. However, this all can be understood by the insights of the functions of the environmental and external factors and their involvement in the business. Economic factors are linked to the money, goods and services. Regardless of straightforwardly influencing organizations, these factors allude to money related condition of the economy on a more noteworthy level – whether that be local or global. The ground for this is that the state of the economy can choose a significant number of the important particulars that arise in an enterprise including themes like taxes, consumer demand, and asset value. Some of the examples of the economic factors affecting business organizations are: income and employment, exchange rates, inflation, interest rates, money and banking, recession, trade cycles, demand and supply, economic growth and development, taxes, marginal and total utility, general price level.

Market factors affecting business. Monitoring your business's market is essential for its steady growth. By monitoring your market, you will come to know when to raise or lower the prices; adjust your products and services; target new markets. These are the major 4 market factors affecting business: your geographic market, your demographic market, your competitors, your industry.

Technological environment factors affecting business. The businesses which deal with the technological investment, technological applications, and the impacts of technology on the market, are mostly affected by technological factors. Hence, the advancement of technology in the modern world highly affects businesses in a country. The company is employing which kind of technology will determine the type and quality of its goods and services as well as type and quality of plant and equipment to be harnessed in the company. Some of the technological factors which have been standing in front of many businesses for a long time are: artificial intelligence, smart internet searches, other high-tech functions.

There are variously predictable as well as unpredictable issues that can arise in your business out of which some will be under your control and some won't. Hence, an efficient manager should always understand and be aware of all types of factors affecting business.

Unit 2. MAIN ECONOMIC ISSUES

Text 1. Defining Economics

The social sciences are academic disciplines that study human society and social relationships. They are concerned with discovering general principles describing how societies function and are organised. The social sciences include anthropology, economics, political science, psychology and sociology.

Economics is a social science because its approach to studying human society is based on the scientific method. It is a social science because it deals with human society and behaviour, and particularly those aspects concerned with how people organise their activities and how they behave in order to satisfy their needs and wants.

Human beings have very many needs and wants. Some of these are satisfied by physical objects and others by non-physical activities. All the physical objects people need and want are called goods (food, clothing, houses, books, computers, cars, televisions, refrigerators and so on); the non-physical activities are called services (education, health care, entertainment, travel, banking, insurance and many more). The study of economics arises because people's needs and wants are unlimited. Whereas some individuals may be satisfied with the goods and services they have or can buy, most would prefer to have more. They would like to have more and better computers, cars, educational services, transport services, housing, recreation, travel and so on; the list is endless.

Yet it is not possible for societies and the people within them to produce or buy all the things they want. Why is this so? It is because there are not enough resources. Resources are the inputs used to produce goods and services wanted by people. They include things like human labour, machines and factories, and "gifts of nature" like agricultural land and metals inside the earth. Resources do not exist in unlimited abundance: they are scarce, or limited and insufficient in relation to unlimited uses that people have for them.

Scarcity is a very important concept in economics. It arises whenever there is not enough of something in relation to the need for it. For example, we could say that food is scarce in poor countries. Or we could say that clean air is scarce in a polluted city. In economics, scarcity is especially important in describing the condition of insufficient resources, because the scarcity of resources causes scarcity in goods and services. Defining scarcity, we can therefore say that: Scarcity is the condition in which available resources are not enough to produce everything that human beings need and want. It follows that societies face a fundamental problem, which is the conflict between unlimited human needs and wants on the one hand, and limited or scarce resources on the other. The subject of economics is how to best resolve this conflict.

The conflict between unlimited needs and wants, and scarce resources has an important consequence. Since people can't have everything they want, they must make choices. The classic example of a choice forced on society by resource scarcity is that of "guns or butter", or more realistically the choice between producing defence goods (guns, weapons, tanks) or food: more defence goods mean less food, while more food means fewer defence goods. Societies must choose how much of each they want to have. Note that if there were no resource scarcity, a choice would not be necessary, since society could produce as much of each as was desired. But resource scarcity forces the society to make a choice between available alternatives. Economics is therefore a study of choices.

The conflict between unlimited needs and wants, and scarce resources has a second important consequence. Since resources are scarce, it is important to avoid waste in how they are used. If resources are not used effectively and are wasted, they will end up producing less; or they may end up producing goods and services that people don't really want or need. Economics must try to find how best to use scarce resources so that waste can be avoided. Defining economics, we can therefore say that: Economics is the study of choices leading to the best possible use of scarce resources in order to best satisfy unlimited human needs and wants.

As you can see from this definition of economics, economists study the world from a social perspective, with the objective of determining what is in society's best interests.

Text 2. Perfect Competition, Supply and Demand

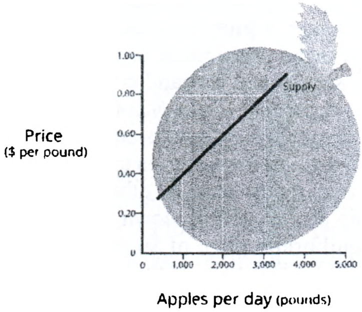
Under a mixed economy, businesses make decisions about which goods to produce or services to offer and how they are priced. Because there are many businesses making goods or providing services, customers can choose among a wide array of products. The competition for sales among businesses is a vital part of our economic system. Economists have identified four types of competition — perfect competition, monopolistic competition, oligopoly, and monopoly.

Perfect competition exists when there are many consumers buying a standardized product from numerous small businesses. Because no seller is big enough or influential enough to affect price, sellers and buyers accept the going price. For example, when a commercial fisher brings his fish to the local market, he has little control over the price he gets and must accept the going market price.

To appreciate how perfect competition works, we need to understand how buyers and sellers interact in a market to set prices. In a market characterized by perfect competition, price is determined through the mechanisms of supply and demand. Prices are influenced both by the supply of products from sellers and by the demand for products by buyers. To illustrate this concept, let's create a supply and demand schedule for one particular good sold at one point in time. Then we'll define demand and create a demand curve and define supply and create a supply curve. Finally, we'll see how supply and demand interact to create an equilibrium price — the price at which buyers are willing to purchase the amount that sellers are willing to sell.

Demand and the demand curve. Demand is the quantity of a product that buyers are willing to purchase at various prices. The quantity of a product that people are willing to buy depends on its price. You're typically willing to buy *less* of a product when prices *rise* and *more* of a product when prices *fall*. Generally speaking, we find products more attractive at lower prices, and we buy more at lower prices because our income goes further.

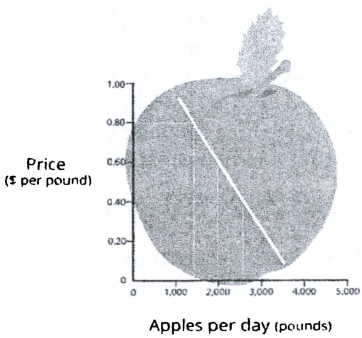
Figure 1. The demand curve



Using this logic, we can construct a demand curve that shows the quantity of a product that will be demanded at different prices. Let's assume that the diagram in Figure 1 "The Demand Curve" represents the daily price and quantity of apples sold by farmers at a local market. Note that as the price of apples goes down, buyers' demand goes up. Thus, if a pound of apples sells for $0.80, buyers will be willing to purchase only fifteen hundred pounds per day. But if apples cost only $0.60 a pound, buyers will be willing to purchase two thousand pounds. At $0.40 a pound, buyers will be willing to purchase twenty-five hundred pounds.

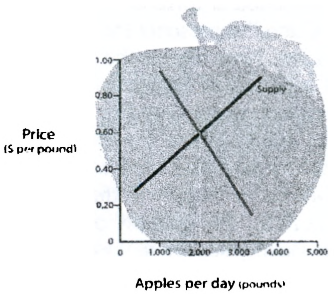
Supply and the supply curve. Supply is the quantity of a product that sellers are willing to sell at various prices. The quantity of a product that a business is willing to sell depends on its price. Businesses are *more* willing to sell a product when the price *rises* and *less* willing to sell it when prices *fall*. Again, this fact makes sense: businesses are set up to make profits, and there are larger profits to be made when prices are high. Now we can construct a supply curve that shows the quantity of apples that farmers would be willing to sell at different prices, regardless of demand. As you can see in Figure 2.4 "The Supply Curve", the supply curve goes in the opposite direction from the demand curve: as prices rise, the quantity of apples that farmers are willing to sell also goes up. The supply curve shows that farmers are willing to sell only a thousand pounds of apples when the price is $0.40 a pound, two thousand pounds when the price is $0.60, and three thousand pounds when the price is $0.80.

Figure 2. The supply curve



Equilibrium Price. We can now see how the market mechanism works under perfect competition. We do this by plotting both the supply curve and the demand curve on one graph, as we've done in Figure 3"The Equilibrium Price". The point at which the two curves intersect is the equilibrium price. You can see in Figure 3. "The Equilibrium Price" that the supply and demand curves intersect at the price of $0.60 and quantity of two thousand pounds. Thus, $0.60 is the equilibrium price: at this price, the quantity of apples demanded by buyers equals the quantity of apples that farmers are willing to supply. If a single farmer tries to charge more than $0.60 for a pound of apples, he won't sell very many because other suppliers are making them available for less. As a result, his profits will go down. If, on the other hand, a farmer tries to charge less than the equilibrium price of $0.60 a pound, he will sell more apples but his profit per pound will be less than at the equilibrium price. With profit being the motive, there is no incentive to drop the price.

Figure 3. The equilibrium price



Without outside influences, markets in an environment of perfect competition will arrive at an equilibrium point at which both buyers and sellers are satisfied. But we must be aware that this is a very simplistic example. Things are much more complex in the real world. For one thing, markets rarely operate without outside influences. Sometimes, sellers supply more of a product than buyers are willing to purchase; in that case, there's a surplus. Sometimes, they don't produce enough of a product to satisfy demand; then we have a shortage.

Circumstances also have a habit of changing. What would happen, for example, if incomes rose and buyers were willing to pay more for apples? The demand curve would change, resulting in an increase in equilibrium price. This outcome makes intuitive sense: as demand increases, prices will go up. What would happen if apple crops were larger than expected because of favorable weather conditions? Farmers might be willing to sell apples at lower prices rather than letting part of the crop spoil. If so, the supply curve would shift, resulting in another change in equilibrium price: the increase in supply would bring down prices.

Text 3. Monopolistic Competition, Oligopoly and Monopoly

Economists have identified four types of competition – perfect competition, monopolistic competition, oligopoly, and monopoly. In monopolistic competition, we still have many sellers (as we had under perfect competition). Now, however, they don't sell identical products. Instead, they sell differentiated products – products that differ somewhat, or are perceived to differ, even though they serve a similar purpose. Products can be differentiated in a number of ways, including quality, style, convenience, location, and brand name. Some people prefer Coke over Pepsi, even though the two products are quite similar. But what if there was a substantial price difference between the two? In that case, buyers could be persuaded to switch from one to the other. Thus, if Coke has a big promotional sale at a supermarket chain, some Pepsi drinkers might switch (at least temporarily).

How is product differentiation accomplished? Sometimes, it's simply geographical; you probably buy gasoline at the station closest to your home regardless of the brand. At other times, perceived differences between products are promoted by advertising designed to convince consumers that one product is different from another – and better than it. Regardless of customer loyalty to a product, however, if its price goes too high, the seller will lose business to a competitor. Under monopolistic competition, therefore, companies have only limited control over price.

Oligopoly means few sellers. In an oligopolistic market, each seller supplies a large portion of all the products sold in the marketplace. In addition, because the cost of starting a business in an oligopolistic industry is usually high, the number of firms entering it is low. Companies in oligopolistic industries include such large-scale enterprises as automobile companies and airlines. As large firms supplying a sizable portion of a market, these companies have some control over the prices they charge. But there's a catch: because products are fairly similar, when one company lowers prices, others are often forced to follow suit to remain competitive. You see this practice all the time in the airline industry: When American Airlines announces a fare decrease, Continental, United Airlines, and others do likewise. When one automaker offers a special deal, its competitors usually come up with similar promotions.

In terms of the number of sellers and degree of competition, a monopoly lies at the opposite end of the spectrum from perfect competition. In perfect competition, there are many small companies, none of which can control prices; they simply accept the market price determined by supply and demand. In a monopoly, however, there's only one seller in the market. The market could be a geographical area, such as a city or a regional area, and doesn't necessarily have to be an entire country.

There are few monopolies in the United States because the government limits them. Most fall into one of two categories: natural and legal. Natural monopolies include public utilities, such as electricity and gas suppliers. Such enterprises require huge investments, and it would be inefficient to duplicate the products that they provide. They inhibit competition, but they're legal because they're important to society. In exchange for the right to conduct business without competition, they're regulated. For instance, they can't charge whatever prices they want, but they must adhere to government-controlled prices. As a rule, they're required to serve all customers, even if doing so isn't cost efficient.

A legal monopoly arises when a company receives a patent giving it exclusive use of an invented product or process. Patents are issued for a limited time, generally twenty years. During this period, other companies can't use the invented product or process without permission from the patent holder. Patents allow companies a certain period to recover the heavy costs of researching and developing products and technologies. A classic example of a company that enjoyed a patent-based legal monopoly is Polaroid, which for years held exclusive ownership of instant-film technology.41 Polaroid priced the product high enough to recoup, over time, the high cost of bringing it to market. Without competition, in other words, it enjoyed a monopolistic position in regard to pricing.

Text 4. Measuring the Health of the Economy

Every day, we are bombarded with economic news (at least if you watch the business news stations). We're told about things like unemployment, home prices, and consumer confidence trends. As a student learning about business, and later as a business manager, you need to understand the nature of the U.S. economy and the terminology that we use to describe it. You need to have some idea of where the economy is heading, and you need to know something about the government's role in influencing its direction. The world's economies share three main goals: growth, high employment, price stability. We are going to take a closer look at each of these goals, both to find out what they mean and to show how we determine whether they're being met.

Economic Growth. One purpose of an economy is to provide people with goods and services cars, computers, video games, houses, rock concerts, fast food, amusement parks. One way in which economists measure the performance of an economy is by looking at a widely used measure of total output called the gross domestic product (GDP). The GDP is defined as the market value of all goods and services produced by the economy in a given year. The GDP includes only those goods and services produced domestically; goods produced outside the country are excluded. The GDP also includes only those goods and services that are produced for the final user; intermediate products are excluded. For example, the silicon chip that goes into a computer (an intermediate product) would not count directly because it is included when the finished computer is counted. By itself, the GDP doesn't necessarily tell us much about the direction of the economy. But change in the GDP does. If the GDP goes up, the economy is growing. If it goes down, the economy is contracting.

The Business Cycle. The economic ups and downs resulting from expansion and contraction constitute the business cycle. A typical cycle runs from three to five years but could last much longer. Though typically irregular, a cycle can be divided into four general phases of prosperity, recession, depression, and recovery:

– during prosperity, the economy expands, unemployment is low, in- comes rise, and consumers buy more products. Businesses respond by increasing production and offering new and better products;

– eventually, however, things slow down. GDP decreases, unemployment rises, and because people have less money to spend, business revenues decline. This slowdown in economic activity is called a recession;

– economists often say that we're entering a recession when GDP goes down for two consecutive quarters;

– generally, a recession is followed by a recovery in which the economy starts growing again.

If, however, a recession lasts a long time (perhaps a decade or so), while unemployment remains very high and production is severely curtailed, the economy could sink into a depression. Unlike for the term recession, economists have not agreed on a uniform standard for what constitutes a depression, though they are generally characterized by their duration.

To keep the economy going strong, people must spend money on goods and services. A reduction in personal expenditures for things like food, clothing, appliances, automobiles, housing, and medical care could severely reduce GDP and weaken the economy. Most people earn their spending money by working, an important goal of all economies is making jobs available to everyone who wants one. In principle, full employment occurs when everyone who wants to work has a job. In practice, we say that we have full employment when about 95 percent of those wanting to work are employed.

The unemployment rate. The U.S. Department of Labor tracks unemployment and reports the unemployment rate: the percentage of the labor force that's unemployed and actively seeking work. The unemployment rate is an important measure of economic health. It goes up during recessionary periods because companies are reluctant to hire workers when demand for goods and services is low. Conversely, it goes down when the economy is expanding and there is high demand for products and workers to supply them.

Price stability. A third major goal of all economies is maintaining price stability. Price stability occurs when the average of the prices for goods and services either doesn't change or changes very little. Rapidly rising prices are troublesome for both individuals and businesses. For individuals, rising prices mean people have to pay more for the things they need. For businesses, rising prices mean higher costs, and, at least in the short run, businesses might have trouble passing on higher costs to consumers. When the overall price level goes up, we have inflation.

When the price level goes down (which rarely happens), we have deflation. A deflationary situation can also be damaging to an economy. When purchasers believe they can expect lower prices in the future, they may defer making purchases, which has the effect of slowing economic growth. Japan experienced a long period of deflation which contributed to economic stagnation in that country from which it is only now beginning to recover.

The consumer price index. The most widely publicized measure of inflation is the consumer price index (CPI), which is reported monthly by the Bureau of Labor Statistics. The CPI measures the rate of inflation by determining price changes of a hypothetical basket of goods, such as food, housing, clothing, medical care, appliances, automobiles, and so forth, bought by a typical household.

Economic forecasting. In the previous section, we introduced several measures that economists use to assess the performance of the economy at a given time. By looking at changes in the GDP, for instance, we can see whether the economy is growing. The CPI allows us to gauge inflation. These measures help us understand where the economy stands today. But what if we want to get a sense of where it's headed in the future? To a certain extent, we can forecast future economic trends by analyzing several leading economic indicators.

Economic indicators. An economic indicator is a statistic that provides valuable information about the economy. There's no shortage of economic indicators, and trying to follow them all would be an overwhelming task. So in this chapter, we'll only discuss the general concept and a few of the key indicators.

Statistics that report the status of the economy a few months in the past are called lagging economic indicators. One such indicator is average length of unemployment. If unemployed workers have remained out of work for a long time, we may infer that the economy has been slow. Indicators that predict the status of the economy three to twelve months into the future are called leading economic indicators. If such an indicator rises, the economy is more likely to expand in the coming year. If it falls, the economy is more likely to contract.

It is also helpful to look at indicators from various sectors of the economy – labor, manufacturing, and housing. One useful indicator of the outlook for future jobs is the number of new claims for unemployment insurance. This measure tells us how many people recently lost their jobs. If it's rising, it signals trouble ahead because unemployed consumers can't buy as many goods and services as they could if they had paychecks.

To gauge the level of goods to be produced in the future (which will translate into future sales), economists look at a statistic called average weekly manufacturing hours. This measure tells us the average number of hours worked per week by production workers in manufacturing industries. If it's on the rise, the economy will probably improve. For assessing the strength of the housing market, housing starts is often a good indicator. An increase in this statistic which tells us how many new housing units are being built indicates that the economy is improving. Why? Because increased building brings money into the economy not only through new home sales but also through sales of furniture and appliances to furnish them. Since employment is such a key goal in any economy, the Bureau of Labor Statistics tracks total nonfarm payroll employment from which the number of net new jobs created can be determined. The Conference Board also publishes a consumer confidence index based on results of a monthly survey of five thousand U.S. households. The survey gathers consumers' opinions on the health of the economy and their plans for future purchases. It's often a good indicator of consumers' future buying intent.

Text 5. Government's Role in Managing the Economy

Plenty of economists provided intellectual support for state intervention during the era of big government, particularly from the 1930s to the 1980s. Keynesians argued that the state should manage the amount of demand in the economy to maintain full employment. Others advocated a command economy, in which the government would decide price levels, oversee the allocation of scarce resources and run the most important parts of the economy (the "commanding heights") or, in communist countries, the entire economy. The role of the state increased at the expense of market forces. Economists provided plenty of examples of market failure that seemed to justify this.

Since the 1950s, there has been growing evidence that government intervention can also be flawed, and can often impose even greater costs on an economy than market failure. One reason is that when a government acts, it usually does so as a monopoly, with all the attendant economic inefficiencies this implies. In practice, policies of Keynesian demand management often resulted in inflation, and thus lost much of their credibility. There was growing concern that public investment was crowding out superior private investment, and that other public spending on things such as health care, education and pensions was similarly discouraging private provision. Government management of commercial enterprises was often seen to be inefficient and, starting in the 1980s, nationalization gave way to privatization. Even when the state was not directly responsible for economic activity, but instead set the rules governing private behaviour, there was evidence of regulatory failure. High rates of taxation started to discourage people and companies from undertaking economic activities that would, without the tax, have been profitable; wealth creation suffered.

Most economists agree that there is a need for some government role in the economy. A market economy can function only if there is an adequate legal system, and, in particular, clearly defined, enforceable property rights. The legal system is probably an example of what economists call a public good (although the existence in many countries and industries of some self-regulation shows it is not always so). Although politicians in many countries spent the 1980s and 1990s talking about the need to reduce the role of the state in the economy, and in many cases introduced policies of privatization, deregulation and liberalization to help this happen, public spending continued to increase as a share of GDP. Classical economists had long recognized the need of government to provide goods and services that would not or could not be provided by the private sector. But they urged that this participation be kept to a minimum.

Paul Samuelson and Milton Friedman have different views on what role the government should play in the economy. Samuelson argues that too many of the problems the classical economists wanted to leave to the marketplace were not subject to its influence. These externalities, affecting things like public health, education, and environmental pollution, were not subject to the laws of supply and demand. Consequently, it was up to government to establish goals for the economy and use its powers to achieve them. Milton Friedman sees things differently. Like the classical economists of old, he regards supply and demand as the most powerful and potentially beneficial economic forces. The best that government can do to help the economy, in Friedman's view, is to keep its hands off business and allow the market to "do its thing.' The minimum wage laws are a case in point. Whereas Samuelson endorses minimum wage laws as a means of helping workers at the bottom of the income ladder, Friedman would argue that by adding to unemployment, they harm the very people they were designed to help. That is, he explains, by increasing labour costs, minimum wages laws make it too expensive for many firms to hire low-wage workers. As a result, those who might otherwise be employed are laid off.

On the one hand, P. Samuelson endorses the concept of government-sponsored programmes such as public housing and food stamps as means of reducing poverty. M. Friedman, on the other hand, would prefer to give the poor additional income and allow them to use the funds to solve their problems without government interference. To apply this concept, Friedman suggested the "negative income tax," which would apply a sliding scale of payments to those whose income from work fell below a stated minimum.

Unit 3. THE MAIN ASPECTS OF ECONOMICS

Text 1. What is Economy?

We want food, clothing, cars, big houses and other goods and services associated with a comfortable standard of living. We also want better schools, more roads, and cleaner streets. Unfortunately, we can't have it all. Our ability to produce goods and services is limited. It's the same kind of problem you have with your time. You might like to go the movies, go shopping, hang out with friends, even attend classes. With only 24 hours in a day, you've got to make choices. If you decide to go to the movies, you have less time to study. In effect, the sacrificed study time is a cost of going to the movies. Faced with such tradeoffs, you must decide how best to use your scarce time. For the larger economy, time is also limited. So, too, are the resources needed to produce desired goods and services. To get more houses, more cars, or more movies, we need not only time but also resources to produce these things. Everyone has to make choices. Government has the power to tax receive huge sums of money, but politicians still must debate how to spend taxpayers' money.

All business owners or managers must pick and choose from among the employees or equipment they would like to have. They cannot have everything. There will always be a difference between what people want and the resources available to satisfy those wants. Human wants are unlimited, but the resources (land, labor, capital and time) required to satisfy them are limited. Once that limit is reached, nothing else can be produced. This is done through the organizational mechanism we call the economic system.

So, everyone – individuals, business firms and government – needs to make choices. Individuals and families must decide how to use limited income, savings and other resources. Similarly, business firms make choices based on their limited profits, saving and borrowing power. Government, too, are limited by their ability to tax, borrow and print money.

With this in mind, economics can be defined as the social science which concerned with the efficient use or management of limited productive resources to achieve maximum satisfaction of human material wants. Or, we can say, it is the study of how human beings make choice to allocate scarce resources to satisfy their unlimited wants in such a manner that consumers can maximize their satisfaction, producers can maximize their profits and the society can maximize its objectives.

There are many definitions of economics. One of them was formulated by Paul Samuelson, a prominent American economist and the author of textbooks on economics which have been used by economics students all over the world for decades: Economics is the study of how societies use scarce resources to produce valuable commodities and distribute them among different people.

Economics is a science. However it is of practical value in business. An understanding of the overall operation of the economic system puts the business executive in a better position to formulate policies. The executive who understands the causes and consequences of inflation is better equipped during inflationary periods to make more intelligent decisions than otherwise. Indeed, more and more economists are employed by corporations. Their job is to gather and interpret economic information upon which rational business decisions can be made. In spite of its practical benefits, however, the students must be warned that economics is an academic subject. Unlike accounting, advertising, corporation finance, and marketing, economics is not primarily a how-to-make-money area of study. The knowledge of economists may be helpful in running a business or in managing one's personal finances, but this is not its primary objective. In economics, problems are usually examined from the social, not from the individual point of view. Production and consumption of goods and services are discussed from the viewpoint of society as a whole, not from the standpoint of one's own personal financial benefits.

Economics is concerned with the following:

1. the production of goods and services: how much the economy produces; what particular combination of goods and services; how much each firm produces; what techniques of production it uses; how many people it employs;

2. the consumption of goods and services: how much the population as a whole spends (and how much it saves); what pattern of consumption is in the economy; how much people buy of particular items; how people's consumption is affected by prices, advertising, fashion and other factors. As individuals want more than they can have, this makes them behave in certain ways. Economics studies that behavior of people as consumers of various goods and services. The society as a whole faces the similar problem, so economics also studies the behavior of producers (firms), and of governments which can influence the level of production and consumption as a whole.

What do economists do? What procedures do they employ? The economist must first gather the facts which are relevant to consideration of a specific economic problem. Then the economist puts this collection of facts in order and summarizes them, and finds out a principle concerning the way individuals and institutions actually behave. Deriving principles from facts is called "economic theory" or "economic analysis". Finally, the general knowledge of economic behavior which economic principles provide can then be used in developing policies for correcting or avoiding the problem. This final aspect of the field is called "applied economics" or "policy economics". In this way economic theory serves as the basis for economic policy. Economic principles are extremely valuable as predictive devices. If some undesirable event (such as unemployment or inflation) can be predicted or understood through economic theory, we may be able to influence or control the event, or prepare for it. Ability to predict a rainstorm does not give us control over the weather, but it does permit us to prepare for it by carrying a raincoat and an umbrella.

Text 2. Methods Used to Develop Economic Theories

Induction and deduction. Induction takes place when accumulated facts are arranged systematically and analyzed so as to permit the derivation of principle. Deriving principles of facts we are describing the inductive or empirical method. The other method is called deductive or hypothetical. For example, economists may say that it is rational for consumers to buy more of a product when its price is low than when its price is high. Such untested principle is called a hypothesis. The validity of this hypothesis can be tested by the systematic and repeated examination of relevant facts. Thus, the deductive method goes from the general to the particular, from theory to facts. Most economists view deduction and induction as complementary, rather than opposing, techniques of investigation. All sciences are careful to distinguish between two types of statements: statements about what is or was or will be - positive statements; and statements about what ought to be – normative statements. Thus, positive economics investigates the ways in which economic agents seek to achieve their goals. It deals with facts and is free from subjective opinions. For example, 'The unemployment rate is 7%'. Normative economics makes suggestions about the ways in which society's goals might be more efficiently realized. For example, 'The unemployment should be lowered'.

Economic models. When economic science discovers a relationship between two or more things, then a model can be designed. Economics uses economic models to explain economic processes which are so complex in the real economy that models become useful. A model is a simplified picture of reality that tells how some things influence other things. And various simplifying assumptions are used. For example, "other things being equal" assumption: In constructing their generalizations, economists as well as other scientists make use of the ceteris paribus (Latin) or "other things being equal" assumption. That is, they assume all other variables are held constant except the one under consideration. To illustrate: If economists want to focus on "the price of product X - purchases of product X" relationship, they assume that only the price of product X varies, and all other factors which may influence the amount of product X purchased are constant, such as the prices of other products, consumer incomes, tastes, fashion, etc.

An economic model is the same thing as an economic theory or principle or law. Economists talk about the "principle of diminishing marginal utility" and the "law of demand" and the "theory of the firm". All these are models: statements of "what causes what" and "what would happen if...". A model can be represented in three ways: verbally (in words), graphically (in graphs and diagrams), mathematically (equations).

Economics consists of 4 items: economics; macroeconomics; microeconomics. industrial economics. *Political economy* studies all the social processes and phenomenon between people. This is the study of economic relationships between people in producing, distributing, exchanging and consuming material goods and services. *Microeconomics* focuses on issues that affect individuals and companies. This could mean studying the supply and demand for a specific product, the production that an individual or business is capable of, or the effects of regulations on a business. *Macroeconomics* is the study of the national economy as a whole; microeconomics is the study of economics at an individual, group or company level and business firms. *Macroeconomics* focuses on issues that affect the economy as a whole. Some of the most common focuses of macroeconomics include unemployment rates, the gross domestic product of an economy, and the effects of exports and imports. *Industrial economics* is a distinctive branch of economics which deals with the economic problems of the firms and the industries and their relationship with the society. It has both micro aspect and macro aspect.

Text 3. Economic Resources

In considering the second fundamental fact- economic resources are limited or scarce- what do we mean by economic resources? In general, we mean all natural, human, and manufactured resources that go into the production of goods and services. This covers a lot of ground: factory and farm buildings and all equipment, tools, and machinery used to produce manufactured goods and agricultural products; transportation and communication facilities; innumerable types of labor; and land and mineral resources of all kinds.

There are 3 categories of resources:

1. natural materials – forests, land, minerals, rivers, oceans, wildlife, oil, etc.

2. human resources (capital) – knowledge and skills, innovation, ingenuity, etc. (Education is developing human capital. Investing in human capital). Human capital is the amount of competences, knowledge and personality attributes (= the set of skills) embodied in the ability to perform labor so as to produce economic value.

3. physical capital – machinery, technology, tools, computers, equipment, etc. Man-made resources. Also, these resources (which we need to produce goods and services) are called factors of production. There are 4 of them: lands, labor, capital, entrepreneurship.

Land means much more to the economist than to most people. Land is all natural resources – all 'gifts o f nature' – usable in the productive process. Such resources as arable land, forests, mineral and oil deposits, and water resources come under this classification.

Capital, or investment goods, is all manufactured aids to production, that is, all tools, machinery, equipment, and factory, storage, transportation, and distribution facilities used in producing goods and services and getting them to the ultimate consumer. Capital is the sum of money, property, goods, and other valuables used to generate income by investing in some business. The process of producing and purchasing capital goods is known as investment. Two other points are relevant. First, capital goods differ from consumer goods in that the latter satisfy wants directly, whereas the capital goods do so indirectly by facilitating production of consumable goods. Second, the term 'capital' as here defined does not refer to money. True, business executives and economists often talk of 'money capital', meaning money available to purchase machinery, equipment, and other productive facilities. But money, as such, produces nothing; hence, it is not considered an economic resource. Real capital – tools, machinery, and other productive equipment – is an economic resource; money or financial capital is not.

Labour is a broad term the economist uses for all the physical and mental talents of men and women available and usable in producing goods and services. (This excludes a special set of talents – entrepreneurial ability- which, because of their special significance in a capitalistic economy, we consider separately.) The services of a logger, retail clerk, machinist, teacher, professional football player, nuclear physicist and physician all fall under the general heading of labor.

Finally, there is the special human resource we label *entrepreneurial ability*, or, simply, enterprise. Entrepreneur is a person who is willing to launch a new venture or enterprise and accept full responsibility for the outcome (profits or losses); or is a owner or manager of a business enterprise who makes money through risk or initiative.

We can assign four related functions to the entrepreneur. The entrepreneur takes the initiative in combining the resources of land, capital, and labor to produce a good or service. The entrepreneur is the driving force behind production and the agent who combines the other resources in what is hoped will be a profitable venture:

1. the entrepreneur makes basic business-policy decisions, that is, those no routine decisions which set the course of a business enterprise.

2. the entrepreneur is an innovator – the one who attempts to introduce on a commercial basis new products, new productive techniques, or even new forms of business organization.

3. the entrepreneur is a risk bearer. This becomes apparent from a close examination of the other three entrepreneurial functions.

4. the entrepreneur in a capitalistic system has no guarantee of profit. The reward for his or her time effort, and abilities may be profits or losses and eventual bankruptcy. The entrepreneur risks not only time, effort, and business reputation, but his or her invested funds.

The central problem of economics is to determine the most efficient ways to allocate resources. This means that decisions must be made about how factors of production will be used to produce the goods and services people need and want. To accomplish this, every society must answer the following three questions: What goods and services are to be produced and in what quantities? How are those goods and services to be produced? Who will receive and consume (get to use) those goods and services?

Individuals and societies can obtain things by producing them themselves, by exchanging things that they already belong to them or by receiving them as gifts. Since a society cannot have everything, it must decide which goods and services it wants now and which ones it is willing to postpone having or to give up completely.

Text 4. Economic Systems

Economists study the interactions between households and businesses and look at the ways in which the factors of production are combined to produce the goods and services that people need. Basically, economists try to answer three sets of questions:

1) What goods and services should be produced to meet consumers' needs? In what quantity? When? 2) How should goods and services be produced? Who should produce them, and what resources, including technology, should be combined to produce them? 3) Who should receive the goods and services produced? How should they be allocated among consumers?

The answers to these questions depend on a country's economic system – the means by which a society (households, businesses, and government) makes decisions about allocating resources to produce products and about distributing those products. The degree to which individuals and business owners, as opposed to the government, enjoy freedom in making these decisions varies according to the type of economic system. Generally speaking, economic systems can be divided into two systems: planned systems and free market systems.

Planned systems. In a planned system, the government exerts control over the allocation and distribution of all or some goods and services. The system with the highest level of government control is communism. In theory, a communist economy is one in which the government owns all or most enterprises. Central planning by the government dictates which goods or services are produced, how they are produced, and who will receive them. In practice, pure communism is practically nonexistent today, and only a few countries (notably North Korea and Cuba) operate under rigid, centrally planned economic systems.

Under socialism, industries that provide essential services, such as utilities, banking, and health care, may be government owned. Some businesses may also be owned privately. Central planning allocates the goods and services produced by government-run industries and tries to ensure that the resulting wealth is distributed equally. In contrast, privately owned companies are operated for the purpose of making a profit for their owners. In general, workers in socialist economies work fewer hours, have longer vacations, and receive more health care, education, and child-care benefits than do workers in capitalist economies. To offset the high cost of public services, taxes are generally steep. Examples of countries that lean towards a socialistic approach include Venezuela, Sweden, and France.

Free market system. The economic system in which most businesses are owned and operated by individuals is the free market system, also known as capitalism. In a free market economy, competition dictates how goods and services will be allocated. Business is conducted with more limited government involvement concentrated on regulations that dictate how businesses are permitted to operate. A key aspect of a free market system is the concept of private property rights, which means that business owners can expect to own their land, buildings, machines, etc., and keep the majority of their profits, except for taxes. The profit incentive is a key driver of any free market system. The economies of the United States and other countries, such as Japan, are based on capitalism. However, a purely capitalistic economy is as rare as one that is purely communist. Imagine if a service such as police protection, one provided by government in the United States, were instead allocated based on market forces. The ability to pay would then become a key determinant in who received these services, an outcome that few in American society would consider to be acceptable.

Mixed market economies. Though it's possible to have a pure communist system, or a pure capitalist (free market) system, in reality many economic systems are mixed. A mixed market economy relies on both markets and the government to allocate resources. In practice, most economies are mixed, with a leaning towards either free market or socialistic principles, rather than being purely one or the other. Some previously communist economies, such as those of Eastern Europe and China, are becoming more mixed as they adopt more capitalistic characteristics and convert businesses previously owned by the government to private ownership through a process called privatization. By contrast, Venezuela is a country that has moved increasingly towards socialism, taking control of industries such as oil and media through a process called nationalization.

Like most countries, the United States features a mixed market system: though the U.S. economic system is primarily a free market system, the federal government controls some basic services, such as the postal service and air traffic control. The U.S. economy also has some characteristics of a socialist system, such as providing social security retirement benefits to retired workers.

The free market system was espoused by Adam Smith in his book *The Wealth of Nations*, published in 1776. According to Smith, competition alone would ensure that consumers received the best products at the best prices. In the kind of competition he assumed, a seller who tries to charge more for his product than other sellers would not be able to find any buyers. A job-seeker who asks more than the going wage won't be hired. Because the "invisible hand" of competition will make the market work effectively, there won't be a need to regulate prices or wages. Almost immediately, however, a tension developed among free market theorists between the principle of *laissez-faire* – leaving things alone – and government intervention. Today, it's common for the U.S. government to intervene in the operation of the economic system. For example, government exerts influence on the food and pharmaceutical industries through the Food and Drug Administration, which protects consumers by preventing unsafe or mislabeled products from reaching the market.

To appreciate how businesses operate, we must first get an idea of how prices are set in competitive markets. The next section, 'Perfect Competition and Supply and Demand," begins by describing how markets establish prices in an environment of perfect competition.

In comparing economic systems, it can be helpful to think of a continuum with communism at one end and pure capitalism at the other. As you move from left to right, the amount of government control over business diminishes. So, too, does the level of social services, such as health care, child-care services, social security, and unemployment benefits. Moving from left to right, taxes are correspondingly lower as well.

Unit 4. LEGAL FORMS OF BUSINESS

Text 1. The Ice Cream Men

Who would have thought it? Two ex-hippies with strong interests in social activism would end up starting one of the best-known ice cream companies in the country — Ben & Jerry's. Perhaps it was meant to be. Ben Cohen (the "Ben" of Ben & Jerry's) always had a fascination with ice cream. As a child, he made his own mixtures by smashing his favorite cookies and candies into his ice cream. But it wasn't until his senior year in high school that he became an official "ice cream man," happily driving his truck through neighborhoods filled with kids eager to buy his ice cream pops. After high school, Ben tried college but it wasn't for him. He attended Colgate University for a year and a half before he dropped out to return to his real love: being an ice cream man. He tried college again — this time at Skidmore, where he studied pottery and jewelry making — but, in spite of his selection of courses, still didn't like it.

In the meantime, Jerry Greenfield (the "Jerry" of Ben & Jerry's) was following a similar path. He majored in pre-med at Oberlin College in the hopes of one day becoming a doctor. But he had to give up on this goal when he was not accepted into medical school. On a positive note, though, his college education steered him into a more lucrative field: the world of ice cream making. He got his first peek at the ice cream industry when he worked as a scooper in the student cafeteria at Oberlin. So, fourteen years after they first met on the junior high school track team, Ben and Jerry reunited and decided to go into ice cream making big time. They moved to Burlington, Vermont — a college town in need of an ice cream parlor — and completed a $5 correspondence course from Penn State on making ice cream. After getting an A in the course — not surprising, given that the tests were open book — they took the plunge: with their life savings of $8,000 and $4,000 of borrowed funds they set up an ice cream shop in a made-over gas station on a busy street corner in Burlington.130 The next big decision was which form of business ownership was best for them.

Text 2 Forms of Business Ownership

If you're starting a new business, you have to decide which legal form of ownership is best for you and your business. Do you want to own the business yourself and operate as a sole proprietorship? Or, do you want to share ownership, operating as a partnership or a corporation? Before discussing the pros and cons of these three types of ownership, it's wise to address some of the questions that you'd probably ask yourself in choosing the appropriate legal form for your business: 1) In setting up your business, do you want to minimize the costs of getting started? Do you hope to avoid complex government regulations and reporting requirements? 2) How much control would you like? How much responsibility for running the business are you willing to share? What about sharing the profits? 3) Do you want to avoid special taxes? 4) Do you have all the skills needed to run the business? 5) Are you likely to get along with your co-owners over an extended period of time? 6) Is it important to you that the business survive you? 7) What are your financing needs and how do you plan to finance your company? 8) How much personal exposure to liability are you willing to accept? Do you feel uneasy about accepting personal liability for the actions of fellow owners?

No single form of ownership will give you everything you desire. You'll have to make some trade-offs. Because each option has both advantages and disadvantages, your job is to decide which one offers the features that are most important to you. In the following sections we'll compare three ownership options (sole proprietorship, partnership, corporation) on these eight dimensions.

Sole proprietorship. In a sole proprietorship, as the owner, you have complete control over your business. You make all important decisions and are generally responsible for all day-to-day activities. In exchange for assuming all this responsibility, you get all the income earned by the business. Profits earned are taxed as personal income, so you don't have to pay any special federal and state income taxes.

For many people, however, the sole proprietorship is not suitable. The flip side of enjoying complete control is having to supply all the different talents that may be necessary to make the business a success. And when you're gone, the business dissolves. You also have to rely on your own resources for financing: in effect, you are the business and any money borrowed by the business is loaned to you personally. Even more important, the sole proprietor bears unlimited liability for any losses incurred by the business. The principle of unlimited personal liability means that if the business incurs a debt or suffers a catastrophe (say, getting sued for causing an injury to someone), the owner is personally liable. As a sole proprietor, you put your personal assets (your bank account, your car, maybe even your home) at risk for the sake of your business. You can lessen your risk with insurance, yet your liability exposure can still be substantial. Given that Ben and Jerry decided to start their ice cream business together (and therefore the business was not owned by only one person), they could not set their company up as a sole proprietorship.

Partnership. A partnership (or general partnership) is a business owned jointly by two or more people. About 10 percent of U.S. businesses are partnerships131 and though the vast majority are small, some are quite large. For example, the big four public accounting firms are partnerships. Setting up a partnership is more complex than setting up a sole proprietorship, but it's still relatively easy and inexpensive. The cost varies according to size and complexity. It's possible to form a simple partnership without the help of a lawyer or an accountant, though it's usually a good idea to get professional advice.

The impact of disputes can be lessened if the partners have executed a well-planned partnership agreement that specifies everyone's rights and responsibilities. The agreement might provide such details as the following:

– amount of cash and other contributions to be made by each partner:
– division of partnership income (or loss);
– partner responsibilities – who does what;
– conditions under which a partner can sell an interest in the company;
– conditions for dissolving the partnership;
– conditions for settling disputes.

A major problem with partnerships, as with sole proprietorships, is unlimited liability: in this case, each partner is personally liable not only for his or her own actions but also for the actions of all the partners. If your partner in an architectural firm makes a mistake that causes a structure to collapse, the loss your business incurs impacts you just as much as it would him or her. And here's the really bad news: if the business doesn't have the cash or other assets to cover losses, you can be personally sued for the amount owed. In other words, the party who suffered a loss because of the error can sue you for your personal assets. Many people are understandably reluctant to enter into partnerships because of unlimited liability. Certain forms of businesses allow owners to limit their liability. These include limited partnerships and corporations.

The law permits business owners to form a limited partnership which has two types of partners: a single general partner who runs the business and is responsible for its liabilities, and any number of limited partners who have limited involvement in the business and whose losses are limited to the amount of their investment.

The partnership has several advantages over the sole proprietorship. First, it brings together a diverse group of talented individuals who share responsibility for running the business. Second, it makes financing easier: the business can draw on the financial resources of a number of individuals. The partners not only contribute funds to the business but can also use personal resources to secure bank loans. Finally, continuity needn't be an issue because partners can agree legally to allow the partnership to survive if one or more partners die.

Still, there are some negatives. First, as discussed earlier, partners are subject to unlimited liability. Second, being a partner means that you have to share decision making, and many people aren't comfortable with that situation. Not surprisingly, partners often have differences of opinion on how to run a business, and disagreements can escalate to the point of jeopardizing the continuance of the business. Third, in addition to sharing ideas, partners also share profits. This arrangement can work as long as all partners feel that they're being rewarded according to their efforts and accomplishments, but that isn't always the case. While the partnership form of ownership is viewed negatively by some, it was particularly appealing to Ben Cohen and Jerry Greenfield. Starting their ice cream business as a partnership was inexpensive and let them combine their limited financial resources and use their diverse skills and talents. As friends they trusted each other and welcomed shared decision making and profit sharing. They were also not reluctant to be held personally liable for each other's actions.

Corporation. A corporation (sometimes called a regular or C-corporation) differs from a sole proprietorship and a partnership because it's a legal entity that is entirely separate from the parties who own it. It can enter into binding contracts, buy and sell property, sue and be sued, be held responsible for its actions, and be taxed. Once businesses reach any substantial size, it is advantageous to organize as a corporation so that its owners can limit their liability. Corporations, then, tend to be far larger, on average, than businesses using other forms of ownership. Corporations account for 18 percent of all U.S. businesses but generate almost 82 percent of the revenues. Most large well-known businesses are corporations, but so are many of the smaller firms with which likely you do business.

Corporations are owned by shareholders who invest money in the business by buying shares of stock. The portion of the corporation they own depends on the percentage of stock they hold. For example, if a corporation has issued 100 shares of stock, and you own 30 shares, you own 30 percent of the company. The shareholders elect a board of directors, a group of people (primarily from outside the corporation) who are legally responsible for governing the corporation. The board oversees the major policies and decisions made by the corporation, sets goals and holds management accountable for achieving them, and hires and evaluates the top executive, generally called the CEO (chief executive officer). The board also approves the distribution of income to shareholders in the form of cash payments called dividends.

Benefits of incorporation. The corporate form of organization offers several advantages, including limited liability for shareholders, greater access to financial resources, specialized management, and continuity.

Limited liability. The most important benefit of incorporation is the limited liability to which shareholders are exposed: they are not responsible for the obligations of the corporation, and they can lose no more than the amount that they have personally invested in the company. It would have been a big plus for the unfortunate individual whose business partner burned down their dry cleaning establishment. Had they been incorporated, the corporation would have been liable for the debts incurred by the fire. If the corporation didn't have enough money to pay the debt, the individual shareholders would not have been obligated to pay anything. They would have lost all the money that they'd invested in the business, but no more.

Financial resources. Incorporation also makes it possible for businesses to raise funds by selling stock. This is a big advantage as a company grows and needs more funds to operate and compete. Depending on its size and financial strength, the corporation also has an advantage over other forms of business in getting bank loans. An established corporation can borrow its own funds, but when a small business needs a loan, the bank usually requires that it be guaranteed by its owners.

Specialized management. Because of their size and ability to pay high sales commissions and benefits, corporations are generally able to attract more skilled and talented employees than are proprietorships and partnerships.

Continuity and transferability. Another advantage of incorporation is continuity. Because the corporation has a legal life separate from the lives of its owners, it can (at least in theory) exist forever.

Transferring ownership of a corporation is easy: shareholders simply sell their stock to others. Some founders, however, want to restrict the transferability of their stock and so choose to operate as a privately-held corporation. The stock in these corporations is held by only a few individuals, who are not allowed to sell it to the general public. Companies with no such restrictions on stock sales are called public corporations; stock is available for sale to the general public.

Drawbacks to incorporation. Like sole proprietorships and partnerships, corporations have both positive and negative aspects. In sole proprietorships and partnerships, for instance, the individuals who own and manage a business are the same people. Corporate managers, however, don't necessarily own stock, and shareholders don't necessarily work for the company. This situation can be troublesome if the goals of the two groups differ significantly. Managers, for example, are often more interested in career advancement than the overall profitability of the company. Stockholders might care more about profits without regard for the well-being of employees. This situation is known as the agency problem, a conflict of interest inherent in a relationship in which one party is supposed to act in the best interest of the other. It is often quite difficult to prevent self-interest from entering into these situations.

Another drawback to incorporation — one that often discourages small businesses from incorporating — is the fact that corporations are more costly to set up. When you combine filing and licensing fees with accounting and attorney fees, incorporating a business could set you back by $1,000 to $6,000 or more depending on the size and scope of your business. Additionally, corporations are subject to levels of regulation and governmental oversight that can place a burden on small businesses. Finally, corporations are subject to what's generally called "double taxation." Corporations are taxed by the federal and state governments on their earnings. When these earnings are distributed as dividends, the shareholders pay taxes on these dividends. Corporate profits are thus taxed twice — the corporation pays the taxes the first time and the shareholders pay the taxes the second time.

Five years after starting their ice cream business, Ben Cohen and Jerry Greenfield evaluated the pros and cons of the corporate form of ownership, and the "pros" won. The primary motivator was the need to raise funds to build a $2 million manufacturing facility. Not only did Ben and Jerry decide to switch from a partnership to a corporation, but they also decided to sell shares of stock to the public (and thus become a public corporation). Their sale of stock to the public was a bit unusual: Ben and Jerry wanted the community to own the company, so instead of offering the stock to anyone interested in buying a share, they offered stock to residents of Vermont only. Ben believed that "business has a responsibility to give back to the community from which it draws its support." He wanted the company to be owned by those who lined up in the gas station to buy cones. The stock was so popular that one in every hundred Vermont families bought stock in the company.135 Eventually, as the company continued to expand, the stock was sold on a national level.

Text 3. Other Types of Business Ownership

In addition to the three commonly adopted forms of business organization — sole proprietorship, partnership, and regular corporations — some business owners select other forms of organization to meet their particular needs. We are going to look at several of these options: limited-liability companies, cooperatives, not-for-profit corporations.

Limited-Liability Companies. How would you like a legal form of organization that provides the attractive features of the three common forms of organization (corporation, sole proprietorship and partnership) and avoids the unattractive features of these three organization forms? The limited-liability company (LLC) accomplishes exactly that. This form provides business owners with limited liability (a key advantage of corporations) and no "double taxation" (a key advantage of sole proprietorships and partnerships). Let's look at the LLC in more detail.

In 1977, Wyoming became the first state to allow businesses to operate as limited-liability companies. Twenty years later, in 1997, Hawaii became the last state to give its approval to the new organization form. Since then, the limited-liability company has increased in popularity. Its rapid growth was fueled in part by changes in state statutes that permit a limited-liability company to have just one member. The trend to LLCs can be witnessed by reading company names on the side of trucks or on storefronts in your city. It is common to see names such as Jim Evans Tree Care, LLC, and For-Cats-Only Veterinary Clinic, LLC. But LLCs are not limited to small businesses. Companies such as Crayola, Domino's Pizza, Ritz-Carlton Hotel Company, and iSold It (which helps people sell their unwanted belongings on eBay) are operating under the limited-liability form of organization. In a limited-liability company, owners (called members rather than shareholders) are not personally liable for debts of the company, and its earnings are taxed only once, at the personal level (thereby eliminating double taxation).

We have touted the benefits of limited liability protection for an LLC. We now need to point out some circumstances under which an LLC member (or a shareholder in a corporation) might be held personally liable for the debts of his or her company. A business owner can be held personally liable if he or she:

– personally guarantees a business debt or bank loan which the company fails to pay;

– fails to pay employment taxes to the government;

– engages in fraudulent or illegal behavior that harms the company or someone else;

– does not treat the company as a separate legal entity, for example, uses company assets for personal uses.

Cooperatives. A cooperative (also known as a co-op) is a business owned and controlled by those who use its services. Individuals and firms who belong to the cooperative join together to market products, purchase supplies, and provide services for its members. If run correctly, cooperatives increase profits for its producer-members and lower costs for its consumer-members. Cooperatives are fairly common in the agricultural community. For example, some 750 cranberry and grapefruit member growers market their cranberry sauce, fruit juices, and dried cranberries through the Ocean Spray Cooperative. More than three hundred thousand farmers obtain products they need for production — feed, seed, fertilizer, farm supplies, fuel — through the Southern States Cooperative. Co-ops also exist outside agriculture. For example, REI (Recreational Equipment Incorporated), which sells quality outdoor gear, is the largest consumer cooperative in the United States, with more than three million active members. The company shares its financial success each year with its members, who get a refund each year based on their eligible purchases.

Not-for-Profit Corporations. A not-for-profit corporation (sometimes called a nonprofit) is an organization formed to serve some public purpose rather than for financial gain. As long as the organization's activity is for charitable, religious, educational, scientific, or literary purposes, it can be exempt from paying income taxes. Additionally, individuals and other organizations that contribute to the not-for-profit corporation can take a tax deduction for those contributions. The types of groups that normally apply for nonprofit status vary widely and include churches, synagogues, mosques, and other places of worship; museums; universities; and conservation groups.

There are more than 1.5 million not-for-profit organizations in the United States. Some are extremely well funded, such as the Bill and Melinda Gates Foundation, which has an endowment of approximately $40 billion and has given away $36.7 billion since its inception. Others are nationally recognized, such as United Way, Goodwill Industries, Habitat for Humanity, and the Red Cross. Yet the vast majority is neither rich nor famous, but nevertheless makes significant contributions to society.

Text 4. Mergers and Acquisitions and Motives Behind Them

The headline read, "Wanted: More than 2,000 in Google Hiring Spree." The largest Web search engine in the world was disclosing its plans to grow internally and increase its workforce by more than 2,000 people, with half of the hires coming from the United States and the other half coming from other countries. The added employees will help the company expand into new markets and battle for global talent in the competitive Internet information providers industry. When properly executed, internal growth benefits the firm.

An alternative approach to growth is to merge with or acquire another company. The rationale behind growth through merger or acquisition is that 1 + 1 = 3: the combined company is more valuable than the sum of the two separate companies. This rationale is attractive to companies facing competitive pressures. To grab a bigger share of the market and improve profitability, companies will want to become more cost efficient by combining with other companies.

Though they are often used as if they're synonymous, the terms merger and acquisition mean slightly different things. A merger occurs when two companies combine to form a new company. An acquisition is the purchase of one company by another. An example of a merger is the merging in 2013 of US Airways and American Airlines. The combined company, the largest carrier in the world, flies under the name American Airlines.

Another example of an acquisition is the purchase of Reebok by Adidas for $3.8 billion. The deal was expected to give Adidas a stronger presence in North America and help the company compete with rival Nike. Once this acquisition was completed, Reebok as a company ceased to exist, though Adidas still sells shoes under the Reebok brand.

Companies are motivated to merge or acquire other companies for a number of reasons, including the following.

Gain complementary products. Acquiring complementary products was the motivation behind Adidas's acquisition of Reebok. As Adidas CEO Herbert Hainer stated in a conference call, "This is a once-in- a-lifetime opportunity. This is a perfect fit for both companies, because the companies are so complementary.... Adidas is grounded in sports performance with such products as a motorized running shoe and endorsement deals with such superstars as British soccer player David Beckham. Meanwhile, Reebok plays heavily to the melding of sports and entertainment with endorsement deals and products by Nelly, Jay-Z, and 50 Cent. The combination could be deadly to Nike." Of course, Nike has continued to thrive, but one can't blame Hainer for his optimism.

Attain new markets or distribution channels. Gaining new markets was a significant factor in the 2005 merger of US Airways and America West. US Airways was a major player on the East Coast, the Caribbean, and Europe, while America West was strong in the West. The expectations were that combining the two carriers would create an airline that could reach more markets than either carrier could do on its own.

Realize synergies. The purchase of Pharmacia Corporation (a Swedish pharmaceutical company) by Pfizer (a research-based pharmaceutical company based in the United States) in 2003 created one of the world's largest drug makers and pharmaceutical companies, by revenue, in every major market around the globe. The acquisition created an industry giant with more than $48 billion in revenue and a research-and-development budget of more than $7 billion. Each day, almost forty million people around the globe are treated with Pfizer medicines. Its subsequent $68 billion purchase of rival drug maker Wyeth further increased its presence in the pharmaceutical market.

In pursuing these acquisitions, Pfizer likely identified many synergies: quite simply, a whole that is greater than the sum of its parts. There are many examples of synergies. A merger typically results in a number of redundant positions: the combined company does not likely need two vice-presidents of marketing, two chief financial officers, and so on. Eliminating the redundant positions leads to significant cost savings that would not be realized if the two companies did not merge. Let's say each of the companies was operating factories at 50% of capacity, and by merging, one factory could be closed and sold. That would also be an example of a synergy. Companies bring different strengths and weaknesses into the merged entity. If the newly-combined company can take advantage of the marketing capabilities of the stronger entity and the distribution capabilities of the other (assuming they are stronger), the new company can realize synergies in both of these functions.

What happens, though, if one company wants to acquire another company, but that company doesn't want to be acquired? The outcome could be a hostile takeover — an act of assuming control that's resisted by the targeted company's management and its board of directors. Ben Cohen and Jerry Greenfield found themselves in one of these situations: Unilever — a very large Dutch/British company that owns three ice cream brands — wanted to buy Ben & Jerry's, against the founders' wishes. Most of the Ben & Jerry's stockholders sided with Unilever. They had little confidence in the ability of Ben Cohen and Jerry Greenfield to continue managing the company and were frustrated with the firm's social-mission focus. The stockholders liked Unilever's offer to buy their Ben & Jerry's stock at almost twice its current market price and wanted to take their profits. In the end, Unilever won: Ben & Jerry's was acquired by Unilever in a hostile takeover. Despite fears that the company's social mission would end, it didn't happen. Though neither Ben Cohen nor Jerry Greenfield are involved in the current management of the company, they have returned to their social activism roots and are heavily involved in numerous social initiatives sponsored by the company.

Unit 5. ENTERPRISE MAJOR FUNDS

Text 1. Enterprise Production Assets

Any enterprise requires the means of production (means o f labor, subjects of labor) to manufacture different industrial products or to release specific services. Means of production are material contents of production assets. According to a character of participation in creating of products, all production assets fall into the fixed assets and the circulating asset. In turn, the fixed assets or fixed capital falls into several groups as per the technological attributes: buildings, constructions (for example, constructions for cleaning up the environment), transfer devices (to transfer necessary kinds of energy, for example, lines of electricity supplies, gas lines, pipelines etc.), power machines (generators, transformers, etc.) and equipments, working machines and equipments, computer facilities, vehicles, tools and stocks. Some groups of fixed assets are referred to the active part of enterprise capital, others to the passive one. In case of close participation the fixed assets in performing different technological operations for products manufacturing, they are called the active capital.

On the other hand, the passive fixed capital not only helps to execute technological processes, but also provides comfortable conditions in accordance with standard norms in order to complete qualitatively assigned production tasks. For example, equipments and tools are active parts of fixed capital, but buildings or constructions or transfer devices (for energy transfer) are being understood such as the passive capital.

Economists define the fixed capital as material objects, that are used many times in order to execute technological processes to manufacture products, they do not lose the own external sizes and forms during their utilization period, and gradually their value is being deducted to write it off through the cost price of finished products and then after products sale the amortization charges are being accumulated to replace each unit of the fixed capital when it is fully depreciated. Structure of fixed capital is the ratio of any fixed assets group cost to total cost of fixed capital. The cost structure of fixed capital reflects a technical level achieved by an enterprise.

There arc three methods of cost estimation and the accounting relative to the fixed assets: initial (primal, installed or balance) cost, recovery cost and remaining (residual) cost.

Initial (primary or balance) cost takes into account a purchase price, for example, a price of equipment or other objects of fixed capital and also necessary expenses to transport and mount any item of fixed capital on a place of its utilization.

Recovery cost reflects changes in reproducing value computed to any item of fixed capital regarding with contemporary conditions of national economy. For example, inflation influences upon a price of any commodities therefore such circumstance is to be taken into accounting. The recovery cost is being accounted relatively to the primary cost (or balance cost) of any item regarding some period of enterprise activity.

Remaining (residual) cost is a method to estimate real suitability of any fixed capital unit during a period of its depreciation. This method of the accounting is been recommended in order to define a cost of fixed asset in case of its sale before the utilization finish.

Depreciation. The fixed assets are exposed to obsolescence and wear and tear depreciation. Machines and buildings wear out and their values decrease day by day; eventually they must be replaced. This gradual loss in value is termed depreciation. This verbal model of the way in which capital equipment is slowly consumed is indisputable, but the exact mathematical manner in which it occurs is arguable.

When an organization purchases a capital asset it makes investment. Capital investment is not an expense even though there is a cash outflow, because the cash is merely exchanged for an asset of equal value. However, expense is incurred as the assets wears out and decreases in value. Methods of accounting for this depreciation are necessary for two reasons:

1) to compute taxes and to accurately state the value of the organization assets. It is not necessary that an organization uses the same method of computing depreciation for these two purposes.

The U.S Internal Revenue Service allows depreciation as a tax-deductive expense; it is not included in profit. This is because the asset was originally purchased with profits that have already been taxed. Setting aside some of the organization's revenues as depreciation allows the recovery of that investment. If that revenue sets aside as depreciation was accumulated during the *M* life of an asset that could be used to replace the asset when it is fully depreciated, *a* For accounting purposes, some rules must be used to compute depreciation; a number of such rules have been used for both tax computation and asset valuation. ? The IRS currently specifies the method to be used for tax computation for most assets.

The wear and tear depreciation is a loss of specific properties of the fixed capital objects. These properties define technical characteristics and functions of the fixed capital objects and also depend on external forms and sizes of fixed capital. The wear and tear depreciation of fixed capital occurs non-uniformly: some kinds of equipment and tools are being worn out faster, than industrial buildings and constructions. Intensity of depreciation is determined by a degree of loading, and by a level o f workers qualification, and also by a timeliness of repair, etc.

The obsolescence depreciation is a direct depreciation or a loss in value of the fixed asset. This process is determined by new achievements in science or technology and is connected with purchasing either a cheaper (the first form) or the more productive machinery (the second form) in order to replace the fixed assets. One of the key factors in determining depreciation is the expected useful life of the equipment. This factor is complicated by obsolescence – that is the decrease in value of the existing equipment because of new developments external to the item itself. Obsolescence may be gradual, as in men's clothing or sudden, as in woman's clothing. Often it cannot be predicted and so the useful life may suddenly be cut short. One reason industry is constantly trying to shorten the allowed useful life is to hasten recovery of capital in order to be prepared for sudden obsolescence.

Text 2. Fixed Assets

Fixed assets can be defined as substantial pieces of properties or equipment owned by a company. These tangible things are used to accumulate income. However, fixed assets cannot be converted into liquid cash and cannot be consumed within one year. Fixed assets generally appear as 'Property', 'Plant', and 'Equipment' (PP&E) on a balance sheet of an enterprise. They are also termed as capital assets.

The balance sheet of a company contains statements of its assets, shareholders' equity and liabilities. Assets are commonly divided into two subparts – noncurrent assets and current assets. The difference between them lies in their usage. Noncurrent assets are properties and assets of a business which are not easily transformed into hard cash. Various kinds of noncurrent assets cover: fixed assets, intangible assets, long-duration investments, deferred expenses. Generally, a fixed asset is purchased for supply and manufacturing of commodities and services. Production may be done for rental purposes, third parties or for a company's personal use. The phrase fixed asset means that these holdings are not supposed to be utilised within the financial year. Fixed assets have a materialistic form and are shown on a balance sheet in the form of PP&E.

Details and particulars of a business's holdings help in creating accurate accounting reports, valuations of trade and extensive financial analysis. Investors and beneficiaries make use of these reports to decide an organisation's economic status. Moreover, the reports are also necessary to determine whether to lend money or purchase shares in that company.

An enterprise may use different trusted methods to record, depreciate and dispose of its assets. Hence, financial analysts are required to learn about the notes on a company's account statements to understand how the figures are calculated. Fixed assets are specifically vital to industries which demand a considerable sum of money. An example may be manufacturing, which needs expenditure on PP&E. However, if a business shows continuous negative total cash flow due to acquisition of fixed holdings, this is a reliable indication that the enterprise is expanding or in an investing position.

Common types of fixed assets can be constructions, computer devices, software, real estate properties, machine equipment, furniture and vehicles. For instance, an organisation builds a car parking area for its usage, that parking space is considered a fixed asset. Keep it in mind that a fixed asset does not mean it has to be an immovable property in all senses of the term. Some fixed holdings like furniture and computer hardware can be moved from one place to another.

Text 3. Current Assets

Current assets of an enterprise are all the holdings that can be easily sold, utilised and consumed and converted into cash through proper trade operations in one fiscal year. This type of asset is visible on an organisation's balance sheet. Balance sheets are essential accounts statements that are necessary to be furnished every year.

One major fixed and current assets difference is that fixed holdings cannot be feasibly converted into cash in less than a year. Whereas current holdings are vital for businesses as they can be utilised to meet regular economic demands and existing operational outlays. Seeing that the term is described as a dollar worth of all holdings and resources that can be conveniently turned into hard cash within a short span, it determines an enterprise's liquid holdings.

Nevertheless, it must be noted that only the eligible assets that have the capability of being turned into liquid money within one-year duration are included. For example, a strong perception prevails that many fast-moving consumer goods manufactured by a company can be effortlessly sold over the coming year. Current assets include inventories, but selling land properties and large machines can be difficult. So machines and pieces of land are excluded from current holdings. The type of current assets ranging from gallons of crude oil, manufactured products, progressing inventories, raw goods or foreign money is dependent on the type of trade and commodities it produces.

Inclusions of current holdings are hard cash, equivalents of cash and liquid expenses in saleable securities like short duration treasury bills and bonds. The following components also fall under current assets:

1. *Accounts receivable.* Accounts receivables are the money of an enterprise that is due for manufacturing services and products. This money is yet to be paid by the consumers and is considered as a current holding, provided that it is expected to be paid within one year. But, if a business is making a profit by presenting long term credit to its customers, then a fraction of account receivables are not granted as current assets.

2. *Inventory.* Inventories comprise raw products, materials and finished goods and fall under the category of current asset. However, one thing that needs to be noticed is inflation of inventory can be made using various accounting techniques, and sometimes it may not be quickly convertible in liquid cash compared to other current holdings. This depends on the goods and the type of industry.

3. *Prepaid outlays.* These are advance expenses made by an organisation with regards to products and services, and they are to be secured in near future. Prepaid outlays cannot be turned into liquid money as they are payments which have already been done. These elements unbound the capital amount, which is required for other necessities. Prepaid outlays can be payments made to insurance organisations or contractors.

The current holdings of a company are listed according to liquidity order. This means that the components which can be easily converted into cash are given higher ranks. Therefore, the formula for evaluating current assets is an aggregate of all feasible cash convertible holdings.

Text 4. Important Fixed Assets and Current Assets Difference

The noncurrent assets owned by a company for the purpose of utilising it continuously for income are termed as fixed assets. On the other hand, the items that can be sold within a span of twelve months are known as current assets.

Transforming a fixed asset into real cash is difficult, whereas current holdings can be effortlessly converted into real cash. Fixed holdings are utilised by an enterprise to generate products and services. They are kept for more than a year. On the contrary, current assets like cash and cash equivalents are kept by a company and can be easily obtained as cash. This is why current assets are detained for less than twelve months.

The value of fixed assets is the complete value, which means the actual price without any depreciation. Conversely, the valuation of current holdings is the value or market price, whichever is minimum.

Another difference between fixed and current assets is that the former requires a lump sum amount of investment, so long-term capitals are utilised for obtaining it. The latter demands short duration investments for acquiring those assets. Current assets can be kept as mortgage as collaterals for availing loans, while fixed holdings cannot be mortgaged. Current holdings are subjected to floating charge, whereas fixed assets denotes fixed cost.

When an organisation sells its fixed assets, the loss suffered or profit earned is on that company's capital. On the other, when current holdings are sold, loss and profit experiences are of earnings nature. When there is an appreciation in the price of a fixed asset, a revaluation reserve is formed. But, in the case of appreciation of worth related to current assets, no revaluation reserve is created. If a holding is kept by a company for selling purposes, it is considered as a current asset. Conversely, if an asset is obtained to support a firm for its operations, it is a fixed asset.

Frequently Asked Questions

Question 1. What are Fixed Assets and Current Assets?

Answer: The assets which cannot be easily converted into cash are known as fixed assets. On the other hand, current assets can be defined as cash and various different kinds of assets that can be transformed into cash within a financial year.

Question **2. Mention Some Primary Assets.**

Answer: Some primary kinds of assets include – inventories, cash and equivalents of cash, investments, vehicles, stock, property, etc.

Question **3. What is the Major Difference Between Fixed Assets and Current Assets?**

Answer: The major difference between fixed and current assets is that fixed assets cannot be easily converted into cash, and current assets can be turned into cash within a duration of twelve months. An example of a fixed and current asset is office furniture and inventory, respectively.

Question **4. Give a Few Examples of Current Assets.**

Answer: Few examples of current assets are cash money, marketable securities, accounts receivable, etc.

Text 5. Working Capital Management and Its Role in Business Success

Traditionally, investors, creditors and bankers have considered working capital as a critical element to watch, as important as the financial position portrayed in the balance sheet and the profitability shown in the income statement. Working capital is a measure of the company's efficiency and short term financial health. It refers to that part of the company's capital, which is required for financing short-term or current assets such a cash marketable securities, debtors and inventories. It is a company's surplus of current assets over current liabilities, which measures the extent to which it can finance any increase in turnover from other fund sources. Funds thus, invested in current assets keep revolving and are constantly converted into cash and this cash flow is again used in exchange for other current assets. That is why working capital is also known as revolving or circulating capital or short-term capital.

Net working capital is defined as the excess of current assets over current liabilities. Working capital mentioned in the balance sheet is an indication of the company's current solvency in repaying its creditors. That is why when companies indicate shortage of working capital they in fact imply scarcity of cash resources.

Factors effecting working capital:

– *nature of business* (generally working capital is higher in manufacturing compared to service based organizations);

– *volume of sales*: higher the sale, higher the working capital required;

– *seasonality:* peak seasons for sales need more working capital;

– *length of operating and cash cycle*: longer the operating and cash cycle, more is the requirement of working capital.

There exist several working capital approaches:

– *matching or hedging approach.* This approach matches assets and liabilities to maturities. Basically, a company uses long term sources to finance fixed assets and permanent current assets and short term financing to finance temporary current assets. *Example:* A fixed asset which is expected to provide cash flow for 5 years should be financed by approx 5 years long-term debts. Assuming the company needs to have additional inventories for 2 months, it will then seek short term 2 months bank credit to match it.

– *conservative approach:* It is conservative because the company prefers to have more cash on hand. That is why, fixed and part of current assets are financed by long-term or permanent funds. As permanent or long-term sources are more expensive, this leads to "lower risk lower return".

– *Aggressive approach.* The Company wants to take high risk where short term funds are used to a very high degree to finance current and even fixed assets.

Every component of working capital (namely inventory, receivables and payables) has two dimensions *TIME* and *MONEY*, in managing working capital. By making the money move faster around the cycle, one can reduce the amount of money tied up. This helps the business generate more cash or it will need to borrow less money to fund its working capital. Consequently, it would either reduce the cost of interest or have free funds to support additional sales growth or investments of the company. Similarly, if one can negotiate on better terms with suppliers, i.e. get an increased credit limit or longer credit; it will effectively create additional cash to help fund future sales. Hence, working capital in lay men terms can be compared to the blood vessels in any human body which makes the body function properly and thus make maximum utilization of the human or company assets.

Working capital management has an important role to play in the success of any business enterprise. Over 75% of companies that are running at loss or struggling financially would be profitable and liquid if were more disposed to the knowledge and practice of efficient working capital management. The working capital management system helps in ensuring that tied down capital that could otherwise be put to productive uses are released. Many finance professionals and business experts often ignore the importance of this management. They usually do not go the extra mile in striving for optimum utilization of resources tied to working capital just because they only look at the work involved in carrying out proper working capital management.

Working capital management is an effective management tool that has the potential of guaranteeing long-term success. Indices such as 'cash management', 'accounts receivable management', 'accounts payable management', 'marketable securities management', and 'accruals management' are crucial responsibilities of financial managers that require constant supervision from the CFO (Chief Financial Officer).

Text 6. Benefits of Working Capital Management

1. Expansion of investment portfolio. Funds released through sound working capital management practices act as a cheap source of finance that can be used for expansion of existing projects or for investment in new spheres of investment.

2. Increased profitability. Increasing profitability is one of the main objectives of engaging in working capital management. One of the ways of increasing profitability through adequate working capital management is in saving of financial cost that would have otherwise been incurred but for managing short-term assets and liabilities.

3. Ensure the availability of sufficient resources. Through stock management which is a component of working capital management, a business is able to ensure that resources are sufficient at all times. Optimal stock level, for instance, is determined using some models outside the scope of this article.

4. Solidifies the going concern status of a company. In business, it is very common to find a profitable company goes out of business if it fails to meet up with the short-term financial needs of the business. Businesses need to satisfy its short term and medium term obligations in order to be in business and still remain competitive.

5. Improves overall efficiency of a company. The overall operational excellence of a company would be greatly improved by an effective working capital management system. Where this system is in place, finances are managed in such a way that it poses no hindrance or obstacle to any aspect of the entity.

6. Helps a company avoid overtrading. Overtrading is one of the fastest ways to business failure. One main characteristic of overtrading is mismatching assets and finances. The business goes beyond set financial goals and objectives, and in the long run, it meets with ruin. Some trends signaling overtrading will include uncontrolled, out of proportion business expansion.

7. Maintain good relation with suppliers and other creditors. Where a business engages in the proper management of its working capital and other financial indices, Trade creditors and other non-trade creditors are poised to continue doing business with it. Their knowledge of the existence of this system goes a long way to boost their confidence in the business and their dealings.

8. Avoid underutilization of resources. While we condemn overtrading and tag it as a negative impact on the functionality of the business, we must also reiterate that under trading can cost a business a fortune in an unearned profit. Through proper management of working capital, a company can ensure that there are no idle resources.

9. Provides better insight into the true financial state of a company. Through working capitals ratios, analysts and financial experts can gain a better understanding of a business. The working capital management affords the business the opportunity of taking a closer look at all of its financial indices.

10. Allocation of resources. Management of working capital is essential in the allocation of resources. It assists the business management incorrectly allocating the right resources to appropriate quarters. Applying the ratios revealed upon the utilization of the management system, as well as all other necessary analysis, areas with surplus resources and the shortage of resources are identified and followed swiftly with appropriate even distribution of resources to all.

Managing working capital is synonymous with efficiently managing other resources in the business. Other financial indices are considered such as the ratios of turnover, the ration of the collection, the ration of key performance. All of these can only be effectively achieved by a standard, efficient and state of the art management of working capital.

Unit 6. MANAGING HUMAN RESOURCES AND EMPLOYEE MOTIVATION

Text 1. The Grounds of a Great Work Environment

Howard Schultz has vivid memories of his father slumped on the couch with his leg in a cast. The ankle would heal, but his father had lost another job — this time as a driver for a diaper service. It was a crummy job; still, it put food on the table, and if his father couldn't work, there wouldn't be any money. Howard was seven, but he understood the gravity of the situation, particularly because his mother was seven months pregnant, and the family had no insurance.

This was just one of the many setbacks that plagued Schultz's father throughout his life — an honest, hard-working man frustrated by a system that wasn't designed to cater to the needs of common workers. He'd held a series of blue-collar jobs (cab driver, truck driver, factory worker), sometimes holding two or three at a time. Despite his willingness to work, he never earned enough money to move his family out of Brooklyn's federally-subsidized housing projects. Schultz's father died never having found fulfillment in his work life — or even a meaningful job. It was the saddest day of Howard's life.

As a kid, did Schultz ever imagine that one day he'd be the founder and chairman of Starbucks Coffee Company? Of course, not. But he did decide that if he was ever in a position to make a difference in the lives of people like his father, he'd do what he could. Remembering his father's struggles and disappointments, Schultz has tried to make Starbucks the kind of company where he wished his father had worked. "Without even a high school diploma," Schultz admits, "my father probably could never have been an executive. But if he had landed a job in one of our stores or roasting plants, he wouldn't have quit in frustration because the company didn't value him. He would have had good health benefits, stock options, and an atmosphere in which his suggestions or complaints would receive a prompt, respectful response." Schultz is motivated by both personal and business considerations: "When employees have self-esteem and self-respect," he argues, "they can contribute so much more: to their company, to their family, to the world." His commitment to his employees is embedded in Starbuck's mission statement, whose first objective is to "provide a great work environment and treat each other with respect and dignity." Those working at Starbucks are called partners because Schultz believes working for his company is not just a job, it's a passion.

Text 2. Human Resource Management

Employees at Starbucks are vital to the company's success. They are its public face, and every dollar of sales passes through their hands. According to Howard Schultz, they can make or break the company. If a customer has a positive interaction with an employee, the customer will come back. If an encounter is negative, the customer is probably gone for good. That's why it's crucial for Starbucks to recruit and hire the right people, train them properly, motivate them to do their best, and encourage them to stay with the company. Thus, the company works to provide satisfying jobs, a positive work environment, appropriate work schedules, and fair compensation and benefits. These activities are part of Starbucks's strategy to deploy human resources in order to gain competitive advantage. The process is called human resource management (HRM), which consists of all actions that an organization takes to attract, develop, and retain quality employees. Each of these activities is complex. Attracting talented employees involves the recruitment of qualified candidates and the selection of those who best fit the organization's needs. Development encompasses both new-employee orientation and the training and development of current workers. Retaining good employees means motivating them to excel, appraising their performance, compensating them appropriately, and doing what's possible to keep them.

Human Resource Planning. How does Starbucks make sure that its worldwide retail locations are staffed with just the right number of committed employees? How does Norwegian Cruise Lines make certain that when the Norwegian Dawn pulls out of New York harbor, it has a complete, fully trained crew on board to feed, entertain, and care for its passengers? Managing these tasks is a matter of strategic human resource planning — the process of developing a plan for satisfying an organization's human resources (HR) needs.

A strategic HR plan lays out the steps that an organization will take to ensure that it has the right number of employees with the right skills in the right places at the right times. HR managers begin by analyzing the company's mission, objectives, and strategies. Starbucks's objectives, for example, include the desire to "develop enthusiastically satisfied customers" as well as to foster an environment in which employees treat both customers and each other with respect. Thus, the firm's HR managers look for people who are "adaptable, self-motivated, passionate, creative team members." The main goal of Norwegian Cruise Lines — to lavish passengers with personal attention — determines not only the type of employee desired (one with exceptionally good customer-relation skills and a strong work ethic) but also the number needed (one for every two passengers on the Norwegian Dawn).

Job analysis. To develop an HR plan, HR managers must be knowledgeable about the jobs that the organization needs performed. They organize information about a given job by performing a job analysis to identify the tasks, responsibilities, and skills that it entails, as well as the knowledge and abilities needed to perform it. Managers also use the information collected for the job analysis to prepare two documents: a job description (which lists the duties and responsibilities of a position) and a job specification (which lists the qualifications — skills, knowledge, and abilities — needed to perform the job).

HR supply and demand forecasting. Once they've analyzed the jobs within the organization, HR managers must forecast future hiring (or firing) needs. This is the three-step process:

– identify the human resources currently available in the organization;
– forecast the human resources needed to achieve the organization's mission and objectives:
– measure the gap between the two.

Starbucks, for instance, might find that it needs three hundred new employees to work at stores scheduled to open in the next few months. Disney might determine that it needs two thousand new cast members to handle an anticipated surge in visitors. The Norwegian Dawn might be short two dozen restaurant workers because of an unexpected increase in reservations.

After calculating the disparity between supply and future demand, HR managers must draw up plans for bringing the two numbers into balance. If the demand for labor is going to outstrip the supply, they may hire more workers, encourage current workers to put in extra hours, subcontract work to other suppliers, or introduce labor-saving initiatives. If the supply is greater than the demand, they may deal with overstaffing by not replacing workers who leave, encouraging early retirements, laying off workers, or (as a last resort) firing workers.

Recruiting Qualified Employees. Armed with information on the number of new employees to be hired and the types of positions to be filled, the HR manager then develops a strategy for recruiting potential employees. *Recruiting* is the process of identifying suitable candidates and encouraging them to apply for openings in the organization. In recruiting and hiring, managers must comply with antidiscrimination laws; violations can have legal consequences. Discrimination occurs when a person is treated unfairly on the basis of a characteristic unrelated to ability. Under federal law, it's illegal to discriminate in recruiting and hiring on the basis of race, color, religion, sex, national origin, age, or disability. (The same rules apply to other employment activities, such as promoting, compensating, and firing.) The Equal Employment Opportunity Commission (EEOC) enforces a number of federal employment laws, including the following:

– Title VII of the Civil Rights Act of 1964, which prohibits employment discrimination based on race, color, religion, sex, or national origin. Sexual harassment is also a violation of Title VII;
– The Equal Pay Act of 1963, which protects both women and men who do substantially equal work from sex-based pay discrimination;
– The Age Discrimination in Employment Act of 1964, which protects individuals who are forty or older;
– Title I and Title V of the Americans with Disabilities Act of 1990, which prohibits employment discrimination against individuals with disabilities.

Text 3. Where and How to Find Candidates

The first step in recruiting is to find qualified candidates. Where do you look for them, and how do you decide whether they're qualified? Companies must assess not only the ability of a candidate to perform the duties of a job, but also whether he or she is a good "fit" for the company-- i.e., how well the candidate's values and interpersonal style match the company's values and culture.

Where do you find people who satisfy so many criteria? Basically, you can look in two places: inside and outside your own organization. Both options have pluses and minuses. Hiring internally sends a positive signal to employees that they can move up in the company — a strong motivation tool and a reward for good performance. In addition, because an internal candidate is a known quantity, it's easier to predict his or her success in a new position. Finally, it's cheaper to recruit internally. On the other hand, you'll probably have to fill the promoted employee's position. Going outside gives you an opportunity to bring fresh ideas and skills into the company. In any case, it's often the only alternative, especially if no one inside the company has just the right combination of skills and experiences. Entry-level jobs are usually filled from the outside.

Whether you search inside or outside the organization, you need to publicize the opening. If you're looking internally in a small organization, you can alert employees informally. In larger organizations, HR managers generally post openings on bulletin boards (often online) or announce them in newsletters. They can also seek direct recommendations from various supervisors.

Recruiting people from outside is more complicated. It's a lot like marketing a product to buyers: in effect, you're marketing the virtues of working for your company. Starbucks uses the following outlets to advertise openings:

– a dedicated section of the corporate web site ("Job Center," which lists openings, provides information about the Starbucks experience, and facilitates the submission of online applications);

– college campus recruiting (holding on-campus interviews and information sessions and participating in career fairs);

– internships designed to identify future talent among college students;

– announcements on employment web sites like Monster.com, Vault.com, Glassdoor.com, and SimplyHired.com;

– newspaper classified ads;

– Facebook and Twitter;

– local job fairs;

– in-store recruiting posters;

– informative "business cards" for distribution to customers.

When asked what it takes to attract the best people, Starbucks's senior executive Dave Olsen replied, "Everything matters." Everything Starbucks does as a company bears on its ability to attract talent. Accordingly, everyone is responsible for recruiting, not just HR specialists. In fact, the best source of quality applicants is often the company's own labor force.

Text 4. The Selection Process

Recruiting gets people to apply for positions, but once you've received applications, you still have to select the best candidate — another complicated process. The selection process entails gathering information on candidates, evaluating their qualifications, and choosing the right one. At the very least, the process can be time-consuming — particularly when you're filling a high-level position — and often involves several members of an organization.

Let's examine the selection process more closely by describing the steps that you'd take to become a special agent for the Federal Bureau of Investigation. Most business students don't generally aspire to become FBI agents, but the FBI is quite interested in business graduates — especially if you have a major in accounting or finance. With one of these backgrounds, you'll be given priority in hiring. Why?

Unfortunately, there's a lot of white-collar crime that needs to be investigated, and people who know how to follow the money are well suited for the task.

Application. The first step in a new graduate being hired as an FBI accountant is applying for the job. Make sure you meet the minimum qualifications they advertise. To provide factual information on your education and work background, you'll submit an application, which the FBI will use as an initial screening tool.

Employment Tests. Next comes a battery of tests (a lot more than you'd take in applying for an everyday business position). Like most organizations, the FBI tests candidates on the skills and knowledge entailed by the job. Unlike most businesses, however, the FBI will also measure your aptitude, evaluate your personality, and assess your writing ability. You'll have to take a polygraph (lie-detector) test to determine the truthfulness of the information you've provided, uncover the extent of any drug use, and disclose potential security problems.

Interview. If you pass all these tests (with sufficiently high marks), you'll be granted an interview. It serves the same purpose as it does for business recruiters: it allows the FBI to learn more about you and gives you a chance to learn more about your prospective employer and your possible future in the organization. The FBI conducts structured interviews — a series of standard questions. You're judged on both your answers and your ability to communicate orally.

Physical exam and reference checks. Let's be positive and say you passed the interview. What's next? You still have to pass a rigorous physical examination (including a drug test), as well as background and reference checks. Given its mission, the FBI sets all these hurdles a little higher than the average employer. Most businesses will ask you to take a physical exam, but you probably won't have to meet the fitness standards set by the FBI. Likewise, many businesses check references to verify that applicants haven't lied about (or exaggerated) their education and work experience. The FBI goes to great lengths to ensure that candidates are suitable for law-enforcement work.

Final ecision. The last stage in the process is out of your control. Will you be hired or not? This decision is made by one or more people who work for the prospective employer. For a business, the decision maker is generally the line manager who oversees the position being filled. At the FBI, the decision is made by a team at FBI headquarters.

Though most people hold permanent, full-time positions, there's a growing number of individuals who work at temporary or part-time jobs. Many of these are contingent workers hired to supplement a company's permanent workforce. Most of them are independent contractors, consultants, or freelancers who are paid by the firms that hire them. Others are on-call workers who work only when needed, such as substitute teachers. Still others are temporary workers (or "temps") who are employed and paid by outside agencies or contract firms that charge fees to client companies.

The positives and negatives of temp work. The use of contingent workers provides companies with a number of benefits. Because they can be hired and fired easily, employers can better control labor costs. When things are busy, they can add temps, and when business is slow, they can release unneeded workers. Temps are often cheaper than permanent workers, particularly because they rarely receive costly benefits. Employers can also bring in people with specialized skills and talents to work on special projects without entering into long-term employment relationships. Finally, companies can "try out" temps: if someone does well, the company can offer permanent employment; if the fit is less than perfect, the employer can easily terminate the relationship. There are downsides to the use of contingent workers, including increased training costs and decreased loyalty to the company. Also, many employers believe that because temps are usually less committed to company goals than permanent workers, productivity suffers.

Text 5. Developing Employees

Because companies can't survive unless employees do their jobs well, it makes economic sense to train them and develop their skills. This type of support begins when an individual enters the organization and continues as long as he or she stays there.

New-employee orientation. Have you ever started your first day at a new job feeling upbeat and optimistic only to walk out at the end of the day thinking that maybe you've taken the wrong job? If this happens too often, your employer may need to revise its approach to orientation — the way it introduces new employees to the organization and their jobs. Starting a new job is a little like beginning college; at the outset, you may be experiencing any of the following feelings:

– somewhat nervous but enthusiastic;
– eager to impress but not wanting to attract too much attention;
– interested in learning but fearful of being overwhelmed with information;
– hoping to fit in and worried about looking new or inexperienced.

The employer who understands how common such feelings are is more likely not only to help newcomers get over them but also to avoid the pitfalls often associated with new-employee orientation:

•– failing to have a workspace set up for you;
•– ignoring you or failing to supervise you;
•– neglecting to introduce you to coworkers;
•– swamping you with facts about the company.

A good employer will take things slowly, providing you with information about the company and your job on a need-to-know basis while making you feel as comfortable as possible. You'll get to know the company's history, traditions, policies, and culture over time. You'll learn more about salary and benefits and how your performance will be evaluated. Most importantly, you'll find out how your job fits into overall operations and what's expected of you.

Training and development. It would be nice if employees came with all the skills they need to do their jobs. It would also be nice if job requirements stayed the same: once you've learned how to do a job, you'd know how to do it forever. In reality, new employees must be trained; moreover, as they grow in their jobs or as their jobs change, they'll need additional training. Unfortunately, training is costly and time-consuming. How costly? *Training* magazine reported that businesses spent over $55 billion on training in 2013. At Darden Restaurants, the parent company to restaurants such as Olive Garden and Red Lobster, training focuses on diversity skills. What's the payoff? Why are such companies willing to spend so much money on their employees? Darden has been recognized by *Fortune* magazine as a "Diversity Champion," ranking it as one of the Top 20 employers on their list of diverse workforces. At Booz Allen Hamilton, consultants specialize in finding innovative solutions to client problems, and their employer makes sure that they're up-to-date on all the new technologies by maintaining a "technology petting zoo" at its training headquarters. It's called a "petting zoo" because employees get to see, touch, and interact with new and emerging technologies. For example, a *Washington Post* reporter visiting the "petting zoo" in 2007 saw fabric that could instantly harden if struck by a knife or bullet, and "smart" clothing that could monitor a wearer's health or environment.

At Booz Allen Hamilton's technology "petting zoo," employees are receiving off-the-job training. This approach allows them to focus on learning without the distractions that would occur in the office. More common, however, is informal on-the-job training, which may be supplemented with formal training programs. This is the method, for example, by which you'd move up from mere coffee maker to a full-fledged "barista" if you worked at Starbucks. You'd begin by reading a large spiral book (titled Starbucks University) on the responsibilities of the barista, pass a series of tests on the reading, then get hands-on experience in making drinks, mastering one at a time. Doing more complex jobs in business will likely require even more training than is required to be a barista.

Diversity in the workplace. The makeup of the U.S. workforce has changed dramatically over the past 50 years. In the 1950s, more than 60 percent was composed of white males. Today's workforce reflects the broad range of differences in the population — differences in gender, race, ethnicity, age, physical ability, religion, education, and lifestyle. As you can see in Figure 11.5, more women and minorities have entered the workforce, and white males now make up only 36 percent of the workforce.

Most companies today strive for diverse workforces. HR managers work hard to recruit, hire, develop, and retain a diverse workforce. In part, these efforts are motivated by legal concerns: discrimination in recruiting, hiring, advancement, and firing is illegal under federal law and is prosecuted by the EEOC. Companies that violate antidiscrimination laws are subject to severe financial penalties and also risk reputational damage. In November 2004, for example, the EEOC charged that recruiting policies at Abercrombie & Fitch, a national chain of retail clothing stores, had discriminated against minority and female job applicants between 1999 and 2004. The EEOC alleged that A&F had hired a disproportionate number of white salespeople, placed minorities and women in less visible positions, and promoted a virtually all-white image in its marketing efforts. Six days after the EEOC filed a lawsuit, the company settled the case at a cost of $50 million, but the negative publicity may hamper both recruitment and sales for some time.

Reasons for building a diverse workforce go well beyond mere compliance with legal standards. It even goes beyond commitment to ethical standards. It's good business. People with diverse backgrounds bring fresh points of view that can be invaluable in generating ideas and solving problems. In addition, they can be the key to connecting with an ethnically diverse customer base. If a large percentage of your customers are Hispanic, it might make sense to have a Hispanic marketing manager. In short, capitalizing on the benefits of a diverse workforce means that employers should view differences as assets rather than liabilities.

Text 6. What Makes a Great Place to Work

Every year, the Great Places to Work Institute analyzes comments from thousands of employees and compiles a list of "The 100 Best Companies to Work for in America®," which is published in *Fortune* magazine. Having compiled its list for more than twenty years, the institute concludes that the defining characteristic of a great company to work for is trust between managers and employees. Employees overwhelmingly say that they want to work at a place where employees "trust the people they work for, have pride in what they do, and enjoy the people they work with." They report that they're motivated to perform well because they're challenged, respected, treated fairly, and appreciated. They take pride in what they do, are made to feel that they make a difference, and are given opportunities for advancement.250 The most effective motivators, it would seem, are closely aligned with Maslow's higher-level needs and Herzberg's motivating factors.

Job redesign. The average employee spends more than two thousand hours a year at work. If the job is tedious, unpleasant, or otherwise unfulfilling, the employee probably won't be motivated to perform at a very high level. Many companies practice a policy of job redesign to make jobs more interesting and challenging. Common strategies include job rotation, job enlargement, and job enrichment.

Job rotation. Specialization promotes efficiency because workers get very good at doing particular tasks. The drawback is the tedium of repeating the same task day in and day out. The practice of job rotation allows employees to rotate from one job to another on a systematic basis, often but not necessarily cycling back to their original tasks. A computer maker, for example, might rotate a technician into the sales department to increase the employee's awareness of customer needs and to give the employee a broader understanding of the company's goals and operations. A hotel might rotate an accounting clerk to the check-in desk for a few hours each day to add variety to the daily workload. Through job rotation, employees develop new skills and gain experience that increases their value to the company. So great is the benefit of this practice that many companies have established rotational training programs that include scheduled rotations during the first 2-3 years of employment. Companies benefit because cross-trained employees can fill in for absentees, thus providing greater flexibility in scheduling, offer fresh ideas on work practices, and become promotion-ready more quickly.

Job enlargement. Instead of a job in which you performed just one or two tasks, wouldn't you prefer a job that gave you many different tasks? In theory, you'd be less bored and more highly motivated if you had a chance at job enlargement — the policy of enhancing a job by adding tasks at similar skill levels. The job of sales clerk, for example, might be expanded to include gift-wrapping and packaging items for shipment. The additional duties would add variety without entailing higher skill levels.

Job enrichment. Merely expanding a job by adding similar tasks won't necessarily "enrich" it by making it more challenging and rewarding. Job enrichment is the practice of adding tasks that increase both responsibility and opportunity for growth. It provides the kinds of benefits that, according to Maslow and Herzberg, contribute to job satisfaction: stimulating work, sense of personal achievement, self-esteem, recognition, and a chance to reach your potential.

Consider, for example, the evolving role of support staff in the contemporary office. Today, employees who used to be called "secretaries" assume many duties previously in the domain of management, such as project coordination and public relations. Information technology has enriched their jobs because they can now apply such skills as word processing, desktop publishing, creating spreadsheets, and managing databases. That's why we now use a term such as administrative assistant instead of secretary.

Work/life quality. Building a career requires a substantial commitment in time and energy, and most people find that they aren't left with much time for non-work activities. Fortunately, many organizations recognize the need to help employees strike a balance between their work and home lives. By helping employees combine satisfying careers and fulfilling personal lives, companies tend to end up with a happier, less-stressed, and more productive workforce. The financial benefits include lower absenteeism, turnover, and health care costs.

Alternative work arrangements. The accounting firm KPMG, which has made the list of the "100 Best Companies for Working Mothers" for nineteen years, is committed to promoting a balance between its employees' work and personal lives. KPMG offers a variety of work arrangements designed to accommodate different employee needs and provide scheduling flexibility.

Flextime. Employers who provide for flextime set guidelines that allow employees to designate starting and quitting times. Guidelines, for example, might specify that all employees must work eight hours a day (with an hour for lunch) and that four of those hours must be between 10 a.m. and 3 p.m. Thus, you could come in at 7 a.m. and leave at 4 p.m., while coworkers arrive at 10 a.m. and leave at 7 p.m. With permission you could even choose to work from 8 a.m to 2 p.m., take two hours for lunch, and then work from 4 p.m. to 6 p.m.

Compressed orkweeks. Rather than work eight hours a day for five days a week, you might elect to earn a three-day weekend by working ten hours a day for four days a week.

Job sharing. Under job sharing, two people share one full-time position, splitting the salary and benefits of the position as each handles half the job. Often they arrange their schedules to include at least an hour of shared time during which they can communicate about the job.

Telecommuting. Telecommuting means that you regularly work from home (or from some other non-work location). You're connected to the office by computer, fax, and phone. You save on commuting time, enjoy more flexible work hours, and have more opportunity to spend time with your family. A study of 5,500 IBM employees (one-fifth of whom telecommute) found that those who worked at home not only had a better balance between work and home life but also were more highly motivated and less likely to leave the organization.

Though it's hard to count telecommuters accurately, Global Workplace Analytics estimates that, in 2016, "at least 3.7 million people (2.8 percent of the workforce) work from home at least half the time." Telecommuting isn't for everyone. Working at home means that you have to discipline yourself to avoid distractions, such as TV, personal phone calls, and home chores and also not be impacted by feeling isolated from the social interaction in the workplace.

Family-friendly programs. In addition to alternative work arrangements, many employers, including KPMG, offer programs and benefits designed to help employees meet family and home obligations while maintaining busy careers. KPMG offers each of the following benefits.

Dependent care. Caring for dependents — young children and elderly parents — is of utmost importance to some employees, but combining dependent-care responsibilities with a busy job can be particularly difficult. KPMG provides on-site child care during tax season (when employees are especially busy) and offers emergency backup dependent care all year round, either at a provider's facility or in the employee's home. To get referrals or information, employees can call KPMG's LifeWorks Resource and Referral Service.

KPMG is by no means unique in this respect: more than 7 percent of U.S. companies maintained on-site day care in 2012,258 and 17 percent of all U.S. companies offered child-care resources or referral services.

Paid parental leave. The United States is one of only two countries in the world that does not guarantee paid leave to new mothers (or fathers), although California, Rhode Island and New Jersey are implementing state programs, and many employers offer paid parental leave as an employee benefit. Any KPMG employee (whether male or female) who becomes a parent can take two weeks of paid leave. New mothers may also get time off through short-term disability benefits.

Caring for yourself. Like many companies, KPMG allows employees to aggregate all paid days off and use them in any way they want. In other words, instead of getting, say, ten sick days, five personal days, and fifteen vacation days, you get a total of thirty days to use for anything. If you're having personal problems, you can contact the Employee Assistance Program. If staying fit makes you happier and more productive, you can take out a discount membership at one of more than nine thousand health clubs. In fact, many employers, like North Carolina software company SAS, now have on-site fitness centers for employee use.

Unmarried without children. You've undoubtedly noticed by now that many programs for balancing work and personal lives target married people, particularly those with children. Single individuals also have trouble striking a satisfactory balance between work and non-work activities, but many single workers feel that they aren't getting equal consideration from employers. They report that they're often expected to work longer hours, travel more, and take on difficult assignments to compensate for married employees with family commitments.

Needless to say, requiring singles to take on additional responsibilities can make it harder for them to balance their work and personal lives. It's harder to plan and keep personal commitments while meeting heavy work responsibilities. Frustration can lead to increased stress and job dissatisfaction. In several studies of stress in the accounting profession, unmarried workers reported higher levels of stress than any other group, including married people with children.

With singles, as with married people, companies can reap substantial benefits from programs that help employees balance their work and non-work lives. PepsiCo, for example, offers a "concierge service," which maintains a dry cleaner, travel agency, convenience store, and fitness center on the premises of its national office in Somers, New York. Single employees seem to find these services helpful, but what they value most of all is control over their time. In particular, they want predictable schedules that allow them to plan social and personal activities. They don't want employers assuming that being single means that they can change plans at the last minute. It's often more difficult for singles to deal with last-minute changes because, unlike married coworkers, they don't have the at-home support structure to handle such tasks as tending to elderly parents or caring for pets.

Text 7 Compensation and Benefits

Though paychecks and benefits packages aren't the only reasons why people work, they do matter. Competitive pay and benefits also help organizations attract and retain qualified employees. Companies that pay their employees more than their competitors generally have lower turnover. Consider, for example, The Container Store, which regularly appears on Fortune magazine's list of "The 100 Best Companies to Work For." The retail chain staffs its stores with fewer employees than its competitors but pays them more—in some cases, three times the industry average for retail workers. This strategy allows the company to attract extremely talented workers who, moreover, aren't likely to leave the company. Low turnover is particularly valuable in the retail industry because it depends on service-oriented personnel to generate repeat business. In addition to salary and wages, compensation packages often include other financial incentives, such as bonuses and profit-sharing plans, as well as benefits, such as medical insurance, vacation time, sick leave, and retirement accounts.

Wages and salaries. The largest, and most important, component of a compensation package is the payment of wages or salary. If you're paid according to the number of hours you work, you're earning wages. Counter personnel at McDonald's, for instance, get wages, which are determined by multiplying an employee's hourly wage rate by the number of hours worked during the pay period. On the other hand, if you're paid for fulfilling the responsibilities of a position — regardless of the number of hours required to do it — you're earning a salary. The McDonald's manager gets a salary for overseeing the operations of the restaurant. He or she is expected to work as long as it takes to get the job done, without any adjustment in compensation.

Piecework and commissions. Sometimes it makes more sense to pay workers according to the quantity of product that they produce or sell. Byrd's Seafood, a crab-processing plant in Crisfield, Maryland, pays workers on piecework: workers' pay is based on the amount of crabmeat that's picked from recently cooked crabs. (A good picker can produce fifteen pounds of crabmeat an hour and earn about $100 a day.) If you're working on commission, you're probably getting paid a percentage of the total dollar amount you sell. If you were a sales representative for an insurance company, like The Hartford, you'd get a certain amount of money for each automobile or homeowner policy you sold.

Incentive programs. In addition to regular paychecks, many people receive financial rewards based on performance, whether their own, their employer's, or both. Other incentive programs designed to reward employees for good performance include bonus plans and stock options.

Bonus plans. Texas Instruments' (TI) year-end bonuses — annual income given in addition to salary—are based on individual and company-wide performance. If the company has a profitable year, and if you contributed to that success, you'll get a bonus.268 If the company doesn't do well, you may be out of luck - regardless of your personal performance, you might not receive a bonus.

Bonus plans have become quite common, and the range of employees eligible for bonuses has widened in recent years. In the past, bonus plans were usually reserved for managers above a certain level. Today, companies have realized the value of extending plans to include employees at virtually every level. The magnitude of bonuses still favors those at the top. High-ranking officers often get bonuses ranging from 30 percent to 50 percent of their salaries. Upper-level managers may get from 15 percent to 25 percent and middle managers from 10 percent to 15 percent. At lower levels, employees may expect bonuses from 3 percent to 5 percent of their annual compensation.

Profit-sharing plans. Delta Airlines and General Motors both have profit-sharing arrangements with employees. Today, about 40% of all U.S. companies offer some type of profit-sharing program. TI's plan is also pretty generous — as long as the company has a good year. Here's how it works. An employee's profit share depends on the company's operating profit for the year. If profits from operations reach 10 percent of sales, the employee gets a bonus worth 2 percent of his or her salary. In 2011, TI's operating profit was 22 percent, and employee bonuses were 7.9 percent of salary. But if operating profits are below 10 percent, nobody gets anything.

Stock-option plans. The TI compensation plan also gives employees the right to buy shares of company stock at a 15% discount four times a year. So, if the price of the stock goes up, the employee benefits. Say, for example, that the stock was selling for $30 a share when the option was granted in 2007. The employee would be entitled to buy shares at a price of $25.50, earning them an immediate 15% gain in value. Any increase in share price would add to that gain.

At TI, stock options are used as an incentive to attract and retain top people. Starbucks, by contrast, isn't nearly as selective in awarding stock options. At Starbucks, all employees can earn "Bean Stock" — the Starbucks employee stock-option plan. Both full- and part-time employees get Starbucks shares based on their earnings and their time with the company. If the company does well and its stock goes up, employees make a profit. CEO Howard Schultz believes that Bean Stock pays off because employees are rewarded when the company does well, they have a stronger incentive to add value to the company (and so drive up its stock price). Starbucks has a video explaining their employee stock option program on this webpage.

Benefits. Another major component of an employee's compensation package is benefits — compensation other than salaries, hourly wages, or financial incentives. Types of benefits include the following:

– legally required benefits (Social Security and Medicare, unemployment insurance, workers' compensation)

– paid time off (vacations, holidays, sick leave)

– insurance (health benefits, life insurance, disability insurance)

– retirement benefits

The cost of providing benefits is staggering. According to the U.S. Bureau of Labor Statistics, it costs an average employer about 30 percent of a worker's salary to provide the same worker with benefits. If you include pay for time not worked (while on vacation or sick and so on), the percentage increases to 37 percent. The most money goes for paid time off (6.9% of salary costs), health care (8.1%), and retirement benefits (3.8%).

Some workers receive only the benefits required by law while part-timers often receive no benefits at all. Again, Starbucks is generous in offering benefits. The company provides benefits even to the part-timers who make up two-thirds of the company's workforce; anyone working at least twenty hours a week is eligible to participate in group medical coverage.

Text 8. Performance Appraisal

Employees generally want their managers to tell them three things: what they should be doing, how well they're doing it, and how they can improve their performance. Good managers address these issues on an ongoing basis. On a semiannual or annual basis, they also conduct formal performance appraisals to discuss and evaluate employees' work performance.

The Basic three-step process. Appraisal systems vary both by organization and by the level of the employee being evaluated, but it's generally a three-step process:

1. before managers can measure performance, they must set goals and performance expectations and specify the criteria (such as quality of work, quantity of work, dependability, initiative) that they'll use to measure performance;
2. at the end of a specified time period, managers complete written evaluations that rate employee performance according to the predetermined criteria;
3. managers then meet with each employee to discuss the evaluation. Jointly, they suggest ways in which the employee can improve performance, which might include further training and development.

It sounds fairly simple, but why do so many managers report that, except for firing people, giving performance appraisals is their least favorite task? To get some perspective on this question, we'll look at performance appraisals from both sides, explaining the benefits and identifying potential problems with some of the most common practices.

Among other benefits, formal appraisals provide the following:

– an opportunity for managers and employees to discuss an employee's performance and to set future goals and performance expectations

– a chance to identify and discuss appropriate training and career-development opportunities for an employee

– formal documentation of the evaluation that can be used for salary, promotion, demotion, or dismissal purposes.

As for disadvantages, most stem from the fact that appraisals are often used to determine salaries for the upcoming year. Consequently, meetings to discuss performance tend to take on an entirely different dimension: the manager may appear judgmental (rather than supportive), and the employee may get defensive. This adversarial atmosphere can make many managers not only uncomfortable with the task but also less likely to give honest feedback. (They may give higher marks in order to avoid delving into critical evaluations.) HR professionals disagree about whether performance appraisals should be linked to pay increases. Some experts argue that the connection eliminates the manager's opportunity to use the appraisal to improve an employee's performance. Others maintain that it increases employee satisfaction with the process and distributes raises on the basis of effort and results.

360-degree and upward feedback. Instead of being evaluated by one person, how would you like to be evaluated by several people – not only those above you in the organization but those below and beside you? The approach is called 360-degree feedback, and the purpose is to ensure that employees (mostly managers) get feedback from all directions – from supervisors, reporting subordinates, coworkers, and even customers. If it's conducted correctly, this technique furnishes managers with a range of insights into their performance in a number of roles.

Some experts, however, regard the 360-degree approach as too cumbersome. An alternative technique, called upward feedback, requires only the manager's subordinates to provide feedback. Computer maker Dell uses this approach as part of its manager-development plan. Every year, forty thousand Dell employees complete a survey in which they rate their supervisors on a number of dimensions, such as practicing ethical business principles and providing support in balancing work and personal life. Dell uses survey results for development purposes only, not as direct input into decisions on pay increases or promotions.

Retaining valuable employees. When a valued employee quits, the loss to the employer can be serious. Not only will the firm incur substantial costs to recruit and train a replacement, but it also may suffer temporary declines in productivity and lower morale among remaining employees who have to take on heavier workloads. Given the negative impact of turnover – the permanent separation of an employee from a company – most organizations do whatever they can to retain qualified employees. Compensation plays a key role in this effort: companies that don't offer competitive compensation packages tend to lose employees. Other factors also come into play, such as training and development, as well as helping employees achieve a satisfying work/non-work balance. In the following sections, we'll look at a few other strategies for reducing turnover and increasing productivity.

Creating a positive work environment. Employees who are happy at work are more productive, provide better customer service, and are more likely to stay with the company. A study conducted by Sears, for instance, found a positive relationship between customer satisfaction and employee attitudes on ten different issues: a 5 percent improvement in employee attitudes results in a 1.3 percent increase in customer satisfaction and a 0.5 percent increase in revenue.

The employee-friendly workplace. What sort of things improve employee attitudes? The 12,000 employees of software maker SAS Institute fall into the category of "happy workers." They choose the furniture and equipment in their offices, eat subsidized meals at one of three on-site restaurants, and enjoy other amenities like a 77,000 square-foot fitness center. They also have job security: no one's ever been laid off because of an economic downturn. The employee-friendly work environment helps SAS employees focus on their jobs and contribute to the attainment of company goals. Not surprisingly, it also results in very low 3 percent turnover.

Recognizing employee contributions. Thanking people for work done well is a powerful motivator. People who feel appreciated are more likely to stay with a company than those who don't.288 While a personal thank-you is always helpful, many companies also have formal programs for identifying and rewarding good performers.

The Container Store rewards employee accomplishments in a variety of ways. For example, employees with 20 years of service are given a "dream trip" – one employee went on a seven day Hawaiian cruise. The company is known for its supportive environment and in 2016 celebrated its seventeenth year on *Fortune*'s 100 Best Companies to Work For.

Involving employees in decision making. Companies have found that involving employees in decisions saves money, makes workers feel better about their jobs, and reduces turnover. Some have found that it pays to take their advice. When General Motors asked workers for ideas on improving manufacturing operations, management was deluged with more than forty-four thousand suggestions during one quarter. Implementing a few of them cut production time on certain vehicles by 15 percent and resulted in sizable savings.

Similarly, in 2001, Edward Jones, a personal investment company, faced a difficult situation during the stock-market downturn. Costs had to be cut, and laying off employees was one option. Instead, however, the company turned to its workforce for solutions. As a group, employees identified cost savings of more than $38 million. At the same time, the company convinced experienced employees to stay with it by assuring them that they'd have a role in managing it.

Why people quit. As important as such initiatives can be, one bad boss can spoil everything. The way a person is treated by his or her boss may be the primary factor in determining whether an employee stays or goes. People who have quit their jobs cite the following behavior by superiors:

– making unreasonable work demands
– refusing to value their opinions
– failing to be clear about what's expected of subordinates
– showing favoritism in compensation, rewards, or promotions

Holding managers accountable for excessive turnover can help alleviate the "bad-boss" problem, at least in the long run. In any case, whenever an employee quits, it's a good idea for someone – other than the individual's immediate supervisor – to conduct an exit interview to find out why. Knowing why people are quitting gives an organization the opportunity to correct problems that are causing high turnover rates.

Involuntary termination. Before we leave this section, we should say a word or two about termination – getting fired. Though turnover – voluntary separations – can create problems for employers, they're not nearly as devastating as the effects of involuntary termination on employees. Losing your job is what psychologists call a "significant life change," and it's high on the list of "stressful life events" regardless of the circumstances. Sometimes, employers lay off workers because revenues are down and they must resort to downsizing – to cutting costs by eliminating jobs. Sometimes a particular job is being phased out, and sometimes an employee has simply failed to meet performance requirements.

Employment at will. Is it possible for you to get fired even if you're doing a good job and there's no economic justification for your being laid off? In some cases, yes — especially if you're not working under a contract. Without a formal contract, you're considered to be employed at will, which means that both you and your employer have the right to terminate the employment relationship at any time. You can quit whenever you want, but your employer can also fire you whenever they want.

Fortunately for employees, over the past several decades, the courts have made several decisions that created exceptions to the employment-at-will doctrine. Since managers generally prefer to avoid the expense of fighting wrongful discharge claims in court, many no longer fire employees at will. A good practice in managing terminations is to maintain written documentation so that employers can demonstrate just cause when terminating an employee. If it's a case of poor performance, the employee would be warned in advance that his or her current level of performance could result in termination and then be permitted an opportunity to improve performance. When termination is necessary, communication should be handled in a private conversation, with the manager explaining precisely why the action is being taken.

Unit 7. MANAGEMENT AND LEADERSHIP

Text 1. What Is Managerial Economics?

One standard definition for economics is the study of the production, distribution, and consumption of goods and services. A second definition is the study of choice related to the allocation of scarce resources. The first definition indicates that economics includes any business, nonprofit organization, or administrative unit. The second definition establishes that economics is at the core of what managers of these organizations do. Economic concepts and principles can be presented from the perspective of "managerial economics," which is a subfield of economics that places special emphasis on the choice aspect in the second definition. The purpose of managerial economics is to provide economic terminology and reasoning for the improvement of managerial decisions.

Most readers are familiar with two different conceptual approaches to the study of economics: microeconomics and macroeconomics. *Microeconomics* studies phenomena related to goods and services from the perspective of individual decision-making entities – that is, households and businesses. *Macroeconomics* approaches the same phenomena at an aggregate level, for example, the total consumption and production of a region. Microeconomics and macroeconomics each have their merits. The microeconomic approach is essential for understanding the behavior of atomic entities in an economy. However, understanding the systematic interaction of the many households and businesses would be too complex to derive from descriptions of the individual units. The macroeconomic approach provides measures and theories to understand the overall systematic behavior of an economy.

Since the purpose of *managerial economics* is to apply economics for the improvement of managerial decisions in an organization, most of the subject material in managerial economics has a microeconomic focus. However, since managers must consider the state of their environment in making decisions and the environment includes the overall economy, an understanding of how to interpret and forecast macroeconomic measures is useful in making managerial decisions.

In a civilized society, we rely on others in the society to produce and distribute nearly all the goods and services we need. However, the sources of those goods and services are usually not other individuals but organizations created for the explicit purpose of producing and distributing goods and services. Nearly every organization in our society – whether it is a business, nonprofit entity, or governmental unit –

can be viewed as providing a set of goods, services, or both. The responsibility for overseeing and making decisions for these organizations is the role of executives and managers.

Whether or not the readers are skeptical about the need to study and understand economics per se, most will recognize the value of studying applied business disciplines like marketing, production/operations management, finance, and business strategy. These subjects form the core of the curriculum for most academic business and management programs, and most managers can readily describe their role in their organization in terms of one or more of these applied subjects. A careful examination of the literature for any of these subjects will reveal that economics provides key terminology and a theoretical foundation. Although we can apply techniques from marketing, production/operations management, and finance without understanding the underlying economics, anyone who wants to understand the why and how behind the technique needs to appreciate the economic rationale for the technique.

We live in a world with scarce resources, which is why economics is a practical science. We cannot have everything we want. Further, others want the same scarce resources we want. Organizations that provide goods and services will survive and thrive only if they meet the needs for which they were created and do so effectively.

Since the organization's customers also have limited resources, they will not allocate their scarce resources to acquire something of little or no value. And even if the goods or services are of value, when another organization can meet the same need with a more favorable exchange for the customer, the customer will shift to the other supplier. Put another way, the organization must create value for their customers, which is the difference between what they acquire and what they produce. Those managers who understand economics have a competitive advantage in creating value.

Managerial economics also addresses another class of manager: the regulator. The economic exchanges that result from organizations and persons trying to achieve their individual objectives may not result in the best overall pattern of exchange unless there is some regulatory guidance. Economics provides a framework for analyzing regulation, both the effect on decision making by the regulated entities and the policy decisions of the

Text 2. Managers and Management Skills

Although management as a discipline is more than 80 years old, there is no common agreement among its experts and practitioners about its precise definition. In fact, this is so in case of all social sciences like psychology, sociology, anthropology, economics, political science etc. As a result of unprecedented and breath-taking technological developments, business organizations have grown in size and complexity, causing consequential changes in the practice of management. Changes in management styles and practices have led to changes in management thought. Moreover, management being interdisciplinary in nature has undergone changes because of the developments in behavioral sciences, quantitative techniques, engineering and technology, etc. Since it deals with the production and distribution of goods and services, dynamism of its environments such as social, cultural and religious values, consumers' tastes and preferences, education and information explosion, democratization of governments, etc., have also led to changes in its theory and practice. Yet, a definition of management is necessary for its teaching and research, and also for improvement in its practice.

Many management experts have tried to define management, but no definition of management has been universally accepted. Here are some of the leading definitions of management:

Peter F. Drucker defines, "management is an organ; organs can be described and defined only through their functions".

According to George R. Terry, "management is not people; it is an activity like walking, reading, swimming or running. People who perform Management can be designated as members, members of Management or executive leaders."

Ralph C. Davis has defined management as, "management is the function of executive leadership anywhere."

Mary P. Follett defines management as the "art of getting things done through people". This definition calls attention to the fundamental difference between a manager and other personnel of an organization. A manager is one who contributes to the organization's goals indirectly by directing the efforts of others – not by performing the task himself. On the other hand, a person who is not a manager makes his contribution to the organization's goals directly by performing the task himself.

Sometimes, however, a person in an organization may play both these roles simultaneously. For example, a sales manager is performing a managerial role when he is directing his sales force to meet the organization's goals, but when he himself is contacting a large customer and negotiating a deal, he is performing a non-managerial role. In the former role, he is directing the efforts of others and is contributing to the organization's goals indirectly; in the latter role, he is directly utilizing his skills as a salesman to meet the organization's objectives.

A somewhat more elaborate definition of management is given by George R. Terry. He defines management as a process "consisting of planning, organizing, actuating and controlling, performed to determine and accomplish the objectives by the use of people and other resources". According to this definition, management is a process – a systematic way of doing things. The four management activities included in this process are: planning, organizing, actuating and controlling. Planning means that managers think of their actions in advance. Organizing means that managers coordinate the human and material resources of the organization. Actuating means that managers motivate and direct subordinates. Controlling means that managers attempt to ensure that there is no deviation from the norm or plan. If some part of their organization is on the wrong track, managers take action to remedy the situation.

Various definitions of management do not run contrary to one another. Management is the sum-total of all those activities that:

– determine objectives, plans, policies and programmes;

– secure men, material, machinery cheaply;

– put all these resources into operations through sound organization;

– direct and motivate the men at work;

– supervises and control their performance.

– provide maximum prosperity and happiness for both employer and employees and public at large.

Text 3. Management Functions

There is enough disagreement among management writers on the classification of managerial functions. Newman and Summer recognize only four functions, namely, organizing, planning, leading and controlling H. Fayol identifies five functions of management, viz. planning, organizing, commanding, coordinating and controlling. Luther Gulick states seven such functions under the catch word 'POSDCORB' which stands for planning, organizing, staffing, directing, coordinating, reporting and budgeting. Warren Haynes and Joseph Massie classify management functions into decision-making, organizing, staffing, planning, controlling, communicating and directing. Koontz and O'Donnell divide these functions into planning organizing, staffing, directing and controlling.

The following are the six functions of a manager: planning, organizing, staffing, directing, coordinating and controlling.

1. *Planning.* Planning is the most fundamental and the most pervasive of all management functions. If people working in groups have to perform effectively, they should know in advance what is to be done, what activities they have to perform in order to do what is to be done, and when it is to be done. Planning is concerned with 'what', 'how, and 'when' of performance. It is deciding in the present about the future objectives and the courses of action for their achievement. It thus involves:

a) determination of long and short-range objectives;

b) development of strategies and courses of actions to be followed for the achievement of these objectives; and

c) formulation of policies, procedures, and rules, etc., for the implementation of strategies, and plans.

The organizational objectives are set by top management in the context of its basic purpose and mission, environmental factors, business forecasts, and available and potential resources. These objectives are both long-range as well as short-range. They are divided into divisional, departmental, sectional and individual objectives or goals. This is followed by the development of strategies and courses of action to be followed at various levels of management and in various segments of the organization. Policies, procedures and rules provide the framework of decision making, and the method and order for the making and implementation of these decisions. Every manager performs all these planning functions, or contributes to their performance. In some organizations, particularly those which are traditionally managed and the small ones, planning are often not done deliberately and systematically but it is still done. The plans may be in the minds of their managers rather than explicitly and precisely spelt out: they may be fuzzy rather than clear but they are always there. Planning is thus the most basic function of management. It is performed in all kinds of organizations by all managers at all levels of hierarchy.

2. *Organizing.* Organizing involves identification of activities required for the achievement of enterprise objectives and implementation of plans; grouping of activities into jobs; assignment of these jobs and activities to departments and individuals; delegation of responsibility and authority for performance, and provision for vertical and horizontal coordination of activities. Every manager has to decide what activities have to be undertaken in his department or section for the achievement of the goals entrusted to him. Having identified the activities, he has to group identical or similar

activities in order to make jobs, assign these jobs or groups of activities to his subordinates, delegate authority to them so as to enable them to make decisions and initiate action for undertaking these activities, and provide for coordination between himself and his subordinates, and among his subordinates.

Organizing thus involves the following sub-functions:

a) identification of activities required for the achievement of objectives and implementation of plans;

b) grouping the activities so as to create self-contained jobs;

c) assignment of jobs to employees;

d) delegation of authority so as to enable them to perform their jobs and to command the resources needed for their performance;

e) establishment of a network of coordinating relationships.

Organizing process results in a structure of the organization. It comprises organizational positions, accompanying tasks and responsibilities, and a network of roles and authority-responsibility relationships. Organizing is thus the basic process of combining and integrating human, physical and financial resources in productive interrelationships for the achievement of enterprise objectives. It aims at combining employees and interrelated tasks in an orderly manner so that organizational work is performed in a coordinated manner, and all efforts and activities pull together in the direction of organizational goals.

3. *Staffing*. Staffing is a continuous and vital function of management. After the objectives have been determined, strategies, policies, programmes, procedures and rules formulated for their achievement, activities for the implementation of strategies, policies, programmes, etc. identified and grouped into jobs, the next logical step in the management process is to procure suitable personnel for manning the jobs. Since the efficiency and effectiveness of an organization significantly depends on the quality of its personnel and since it is one of the primary functions of management to achieve qualified and trained people to fill various positions, staffing has been recognized as a distinct function of management. It comprises several sub-functions:

a) manpower planning involving determination of the number and the kind of personnel required;

b) recruitment for attracting adequate number of potential employees to seek jobs in the enterprise;

c) selection of the most suitable persons for the jobs under consideration;

d) placement, induction and orientation;

e) transfers, promotions, termination and layoff;

f) training and development of employees.

As the importance of human factor in organizational effectiveness is being increasingly recognized, staffing is gaining acceptance as a distinct function of management. It hardly needs to be emphasized that no organization can ever be better than its people, and managers must perform the staffing function with as much concern as any other function.

4. *Directing*. Directing is the function of leading the employees to perform efficiently, and contribute their optimum to the achievement of organizational objectives. Jobs assigned to subordinates have to be explained and clarified, they have to be provided guidance in job performance and they are to be motivated to contribute their

optimum performance with zeal and enthusiasm. The function of directing thus involves the following sub-functions: communication, motivation, leadership.

5. *Coordination.* Coordinating is the function of establishing such relationships among various parts of the organization that they all together pull in the direction of organizational objectives. It is thus the process of tying together all the organizational decisions, operations, activities and efforts so as to achieve unity of action for the accomplishment of organizational objectives. The significance of the coordinating process has been aptly highlighted by Mary P. Follet. The manager, in her view, should ensure that he has an organization "with all its parts coordinated, so moving together in their closely knit and adjusting activities, so linking, interlocking and interrelation, that they make a working unit, which is not a congeries of separate pieces, but what I have called a functional whole or integrative unity". Coordination, as a management function, involves the following sub-functions: a) clear definition of authority-responsibility relationships; b) unity of direction; c) unity of command; d) effective communication; e) effective leadership.

6. *Controlling.* Controlling is the function of ensuring that the divisional, departmental, sectional and individual performances are consistent with the predetermined objectives and goals. Deviations from objectives and plans have to be identified and investigated, and correction action taken. Deviations from plans and objectives provide feedback to managers, and all other management processes including planning, organizing, staffing, directing and coordinating are continuously reviewed and modified, where necessary. Controlling implies that objectives, goals and standards of performance exist and are known to employees and their superiors. It also implies a flexible and dynamic organization which will permit changes in objectives, plans, programmes, strategies, policies, organizational design, staffing policies and practices, leadership style, communication system, etc., for it is not uncommon that employees failure to achieve predetermined standards is due to defects or shortcomings in any one or more of the above dimensions of management.

Thus, controlling involves the following process: a) measurement of performance against predetermined goals; b) identification of deviations from these goals; c) corrective action to rectify deviations.

It may be pointed out that although management functions have been discussed in a particular sequence – planning, organizing, staffing, directing, coordinating and controlling – they are not performed in a sequential order. Management is an integral process and it is difficult to put its functions neatly in separate boxes. Management functions tend to coalesce, and it sometimes becomes difficult to separate one from the other. For example, when a production manager is discussing work problems with one of his subordinates, it is difficult to say whether he is guiding, developing or communicating, or doing all these things simultaneously. Moreover, managers often perform more than one function simultaneously.

Text 4. Management vs. Administration

The use of two terms management and administration has been a controversial issue in the management literature. Some writers do not see any difference between the two terms, while others maintain that administration and management are two different functions. Those who held management and administration distinct include Oliver

Oliver Sheldon, Florence and Tead, Spriegel and Lansburg, etc. According to them, management is a lower-level function and is concerned primarily with the execution of policies laid down by administration.

But some English authors like Brech are of the opinion that management is a wider term including administration. This controversy is discussed as under in three headings:

1. Administration is concerned with the determination on policics and management with the implementation of policies. Thus, administration is a higher level function.
2. Management is a generic term and includes administration.
3. There is no distinction between the terms management and administration and they are used interchangeably.

Administration is a Higher Level Function. According to Oliver Shelden who subscribed to the first viewpoint, "Administration is concerned with the determination of corporate policy, the coordination of finance, production and distribution, the settlement of the compass of the organization and the ultimate control of the executive. Management proper is concerned with the execution of policy within the limits set up by administration and the employment of the organization... Administration determines the organization; management uses it. Administration defines the goals; management strives towards it". Administration refers to policy-making whereas management refers to execution of policies laid down by administration. Administration is the phase of business enterprise that concerns itself with the overall determination of institutional objectives and the policies unnecessary to be followed in achieving those objectives. Administration is a determinative function; on the other hand, management is an executive function which is primarily concerned with carrying out of the broad policies laid down by the administration. Thus, administration involves broad policy-making and management involves the execution of policies laid down by the administration.

Management is a Generic Term. The second viewpoint regards management as a generic term including administration. According to Brech, "Management is a social process entailing responsibility for the effective and economical planning and regulation of the operation of an enterprise in fulfillment of a given purpose or task. Administration is that part of management which is concerned with the installation and carrying out of the procedures by which the programme is laid down and communicated and the progress of activities is regulated and checked against plans". Thus, Brech conceives administration as a part of management. According to Kimball and Kimball who also subscribe to this view, administration is a part of management. Administration is concerned with the actual work of executing or carrying out the objectives.

Management and Administration are Synonymous. The third viewpoint is that there is no distinction between the terms 'management' and 'administration'. Usage also provides no distinction between these terms. The term management is used for higher executive functions like determination of policies, planning, organizing, directing and controlling in the business circles, while the term administration is used for the same set of functions in the Government circles. So there is no difference between these two terms and they are often used interchangeably. It seems from the above concepts of administration and management that administration is the process of determination of objectives, laying down plans and policies, and ensuring that achievements are in conformity with the objectives. Management is the process of executing the plans and policies for the achievement of the objectives determined by an administration. This distinction seems to be too simplistic and superficial. If we regard chairmen, managing directors and general managers as performing administrative functions, it cannot be said that they perform only planning functions of goal determination, planning and policy formulation, and do not perform other functions such as staffing functions of selection and promotion, or directing functions of leadership, communication and motivation. On the other hand, we cannot say that managers who are responsible for the execution of plans and formulation of plans and policies, etc. do not contribute to the administrative functions of goal determination, and formulation of plans and policies. In fact all manages, whether the chief executive or the first line supervisor, are in some way or the other involved in the performance of all the managerial functions. It is, of course, true that those who occupy the higher echelons of organizational hierarchy are involved to a greater extent in goal.

Text 5. Management Types: Vertical and Horizontal Differences

Managers use conceptual, human, and technical skills to perform the four management functions of planning, organizing, leading, and controlling in all organizations – large and small, manufacturing and service, profit and nonprofit, traditional and Internet-based. But not all managers' jobs are the same. Managers are responsible for different departments, work at different levels in the hierarchy, and meet different requirements for achieving high performance.

An important determinant of the manager's job is hierarchical level. There are three levels in the hierarchy. A recent study of more than 1,400 managers examined how the manager's job differs across these three hierarchical levels and found that the primary focus changes at different levels. For first-level managers, the main concern is facilitating individual employee performance. Middle managers, though, are concerned less with individual performance and more with linking groups of people, such as allocating resources, coordinating teams, or putting top management plans into action across the organization. For top-level managers, the primary focus is monitoring the external environment and determining the best strategy to be competitive. Further on, these differences across hierarchical levels are shown in more detail.

Top managers are at the top of the hierarchy and are responsible for the entire organization. They have such titles as president, chairperson, executive director, chief executive officer (CEO), and executive vice president. Top managers are responsible for setting organizational goals, defining strategies for achieving them, monitoring and interpreting the external environment, and making decisions that affect the entire organization. They look to the long-term future and concern themselves with general environmental trends and the organization's overall success. Top managers are also responsible for communicating a shared vision for the organization, shaping corporate culture, and nurturing an entrepreneurial spirit that can help the company innovate and keep pace with rapid change.

Middle managers work at middle levels of the organization and are responsible for business units and major departments. Examples of middle managers are department head, division head, manager of quality control, and director of the research lab. Middle managers typically have two or more management levels beneath them.

They are responsible for implementing the overall strategies and policies defined by top managers. Middle managers generally are concerned with the near future rather than with long-range planning. The middle manager's job has changed dramatically over the past two decades. Many organizations improved efficiency by laying off middle managers and slashing middle management levels. Traditional pyramidal organization charts were flattened to allow information to flow quickly from top to bottom and decisions to be made with greater speed. Yet even as middle management levels have been reduced, the middle manager's job has taken on a new vitality. Rather than managing the flow of information up and down the hierarchy, middle managers create horizontal networks that can help the organization act quickly. Research shows that middle managers play a crucial role in driving innovation and enabling organizations to respond to rapid shifts in the environment. As Ralph Stayer, CEO of Johnsonville Sausage, said — Leaders can design wonderful strategies, but the success of the organization resides in the execution of those strategies. The people in the middle are the ones who make it work. Middle managers' status has also escalated because of the growing use of teams and projects. Strong project managers are in hot demand.

A *project manager* is responsible for a temporary work project that involves the participation of people from various functions and levels of the organization, and perhaps from outside the company as well. Many of today's middle managers work with a variety of projects and teams at the same time, some of which cross geographical and cultural as well as functional boundaries.

First-line managers are directly responsible for the production of goods and services. They are the first or second level of management and have such titles as supervisor, line manager, section chief, and office manager. They are responsible for groups of non-management employees. Their primary concern is the application of rules and procedures to achieve efficient production, provide technical assistance, and motivate subordinates. The time horizon at this level is short, with the emphasis on accomplishing day-to-day goals. For example, Alistair Boot manages the menswear department for a John Lewis department store in Cheadle, England. Boot's duties include monitoring and supervising shop floor employees to make sure sales procedures, safety rules, and customer service policies are followed. This type of managerial job might also involve motivating and guiding young, often inexperienced workers, providing assistance as needed, and ensuring adherence to company policies.

The other major difference in management jobs occurs horizontally across the organization. *Functional managers* are responsible for departments that perform a single functional task and have employees with similar training and skills. Functional departments include advertising, sales, finance, human resources, manufacturing, and accounting. *Line managers* are responsible for the manufacturing and marketing departments that make or sell the product or service. *Staff managers* are in charge of departments such as finance and human resources that support line departments.

General managers are responsible for several departments that perform different functions. A general manager is responsible for a self-contained division, such as a Macy's department store or a General Motors assembly plant, and for all the functional departments within it. Project managers also have general management responsibility because they coordinate people across several departments to accomplish a specific project.

Text 6. Characteristics of Professional Managers

As the world of work continues to change so do the qualities and characteristics of the managers who are going to be leading our companies. Work is not the same as it used to be and we are seeing dramatic changes in both behavior and technology not just in our personal lives but in our professional lives. This means that just because managers were successful in the past doesn't mean they will be successful in the future. When it comes to evolving the way we work managers need to possess five qualities to help their organizations evolve and succeed in the future of work.

1. *Managers are responsible and accountable.* Managers are responsible for seeing that specific tasks are done successfully. They are usually evaluated on how well they arrange for these tasks to the accomplished. Managers are responsible for the actions of their subordinates. The success or failure of subordinates is a direct reflection of managers' success or failure. All members of an organization, including those who are not managers, are responsible for their particular tasks. The difference is that managers are held responsible, or accountable. not only for their own work, but also for the work of subordinates.

2. *Managers balance competing goals and set priorities.* At any given time, the manager faces a number of organizational goals, problems and needs all of which compete for the manager's time and resources (both human and material). Because such resources are always limited, the manager must strike a balance between the various goals and needs. Many managers, for example, arrange each day's tasks in order of priority the most important things are done right away, while the less important tasks are looked at later. In this way, managerial time is used effectively. A manager must also decide who is to perform a particular task and must assign work to an appropriate person. Although ideally each person should be given the task he would most like to do, this is not always possible. Sometimes individual ability is the decisive factor. and a task is assigned to the person most able to accomplish it. But sometimes a less capable worker is assigned a task as a learning experience. And. at times. limited human or other resources dictate decisions for making work assignments. Managers are often caught between conflicting human and organizational needs and so they must identify priorities.

3. *Managers think analytically and conceptually.* To be an analytical thinker, a manager must be able to break a problem down into its components, analyze those components and then come up with a feasible solution. But even more important, a manager must be a conceptual thinker, able to view the entire task in the abstract and relate it to other tasks. Thinking about a particular task in relation to its larger implications is no simple matter. But it is essential if the manager is to work towards the goals of the organization as a whole as well as towards the goals of an individual unit.

4. *Managers are mediators.* Organizations are made up of people, and people disagree or quarrel quite often. Disputes within a unit or organization can lower morale and productivity, and they may become so unpleasant or disruptive that competent employees decide to leave the organization. Such occurrences hinder work towards the goals of the unit or organization; therefore, managers must at times take on the role of mediator and iron out disputes before they get out of hand. Setting conflicts requires skill and tact. Managers who are careless in their handling conflicts may later on find that they have only made matters worse.

5. *Managers make difficult decisions*. No organization runs smoothly all the time. There is almost no limit to the number and types of problems that may occur: financial difficulties, problems with employees, or differences of opinion concerning an organization policy, to name just a few. Managers are expected to come up with solutions to difficult problems and to follow through on their decisions even when doing so may be unpopular. This description of these managerial roles and responsibilities shows that managers must 'change hats' frequently and must be alert to the particular role needed at a given time. The ability to recognize the appropriate role to be played and to change roles readily is a mark of an effective manager.

From a young age, we're taught the importance of hard work. If we work hard, we'll succeed. If we work hard, we'll be able to achieve our goals. As Th. Edison said, "There is no substitute for hard work." Well, it turns out that's not all there is to it. Say, you are tasked with digging out sod and creating a 15 foot x 15 foot garden plot. You could spend all day with a shovel, or you could rent a rototiller and get it done in an hour or so. This is working hard versus working smart. Effective managers are those who work smart because they know it's the only way to do everything they need to in a day – and still have time to get and try some of that work/life balance.

What makes a manager effective? It's not 12-hour days and vending machine lunches on the go. It's not always working hard, although managers must do their fair share of that, no matter how smart they are. It is about knowing how to use time, resources, and most especially people (including themselves) to their best advantage. It is about knowing, and keeping their boundaries and fostering that quality in their team. It is about using the rototiller and saving your time, and back, for other tasks.

References

1. Малюга Е.Н., Ваванова Н.В. Английский язык для экономистов: Учебник для вузов — СПб.: Питер, 2005. — 304 с.

2. Baimukhamedova A.M., Baimukhamedova G.S., Luchaninova A.A. Economy of Organizations (Enterprises). The textbook in English. – Kostanai: Master Reprint Publishing house, 2017. – 156 p.

3. Mezentseva O., Bezpartochnyi M., Marchenko V. Fundamentals of Management for Enterprises. Textbook for beginners: textbook tool. -- Sofia: VUZF Publishing House—St. Grigorii Bogoslov□, 2020. – 116 p.

4. Ricketts M. The Economics of Business Enterprise. An Introduction to Economic Organisation and the Theory of the Firm. – 3rd. ed. – Cheltenham: Edward Elgar Publishing, 2002. – 619 p.

5. Samuelson W.F., Marks S.G. Managerial Economics. –7th. ed. – Boston: Wiley, 2013. – 784 p.

Учебное издание

Составитель:
Рахуба Валерий Иванович

Introduction to Enterprise Economics and Management

**Сборник текстов по обучению
профессионально-ориентированному чтению
на английском языке**

для студентов специальности

1 25 01 07 «Экономика и управление на предприятии»

Текст печатается в авторской редакции, орфографии и пунктуации

Ответственный за выпуск: Рахуба В. И.
Редактор: Митлошук М. А.
Компьютерная верстка: Рогожина Ю. А.

Подписано в печать 29.10.2021 г. Формат 60x84 1/16. Бумага «Performer».
Гарнитура «Times New Roman ». Усл. печ. л. 3,95. Уч. изд. л. 4,25. Заказ № 1202 Тираж 21 экз.
Отпечатано на ризографе учреждения образования «Брестский государственный технический университет». 224017, г. Брест, ул. Московская, 267.
Свидетельство о государственной регистрации издателя, изготовителя, распространителя печатных изданий № 1/235 от 24.03.2014 г.