BUSINESS CONCEPTS: EXPLORING CAREERS IN BUSINESS

LibreTexts™

Business Concepts: Exploring Careers in Business

by Jenny Parker and Mabel Gehrett

Western Technical College

May 2024

Business Concepts: Exploring Careers in Business

InfoPage

Business Concepts: Exploring Careers in Business

Instructors/Authors: Mabel Gehrett – (Human Resource Management and Business Management) and Jenny Parker (Accounting)

Together, we developed the new Business Concepts course to be used in the Business Division at Western Technical College. This course is designed to help new students learn more about each individual program in business so they can fully commit to their selected program as they get started. We sometimes see students register for and start a program with very little knowledge or understanding of what they will do in that program or career. Business Concepts will expose these new students to the possibilities in business so they can make the best decision for themselves early on, and switch programs, if necessary, without adding time to their educational plan.

This project has great potential to eliminate unnecessary costs and wasted time for students by offering them an overview of business in general, as well as an overview of each of Western's Business programs. Students will learn what makes up each program area and what possible career opportunities they could expect beyond graduation. By selecting the right program at the start of their college journey, students will experience less frustration and be more engaged knowing they have selected the best program for themselves.

While creating this course, Jenny and I learned that collaborating with someone from a different program can really help to make the course understandable and organized for both faculty and students. Having a second set of eyes reviewing and providing feedback on our materials was so helpful. We also learned more about converting our classes to the 7-week format and the importance of creating a similar framework for each week, which affords both students and faculty to understand the flow of the weekly structure.

Overall, this project has been a great experience for us. We hope to hear positive feedback from faculty and students once this class begins and have offered a place for updates to content so we can improve this course as it is continuing to be used in the division.

TABLE OF CONTENTS

Licensing

A detailed breakdown of this resource's licensing can be found in ***Back Matter/Detailed Licensing***.

CHAPTER OVERVIEW

1: Internal and External Business Environments

1.1: Guiding Questions | Learning Objectives | Key Terms

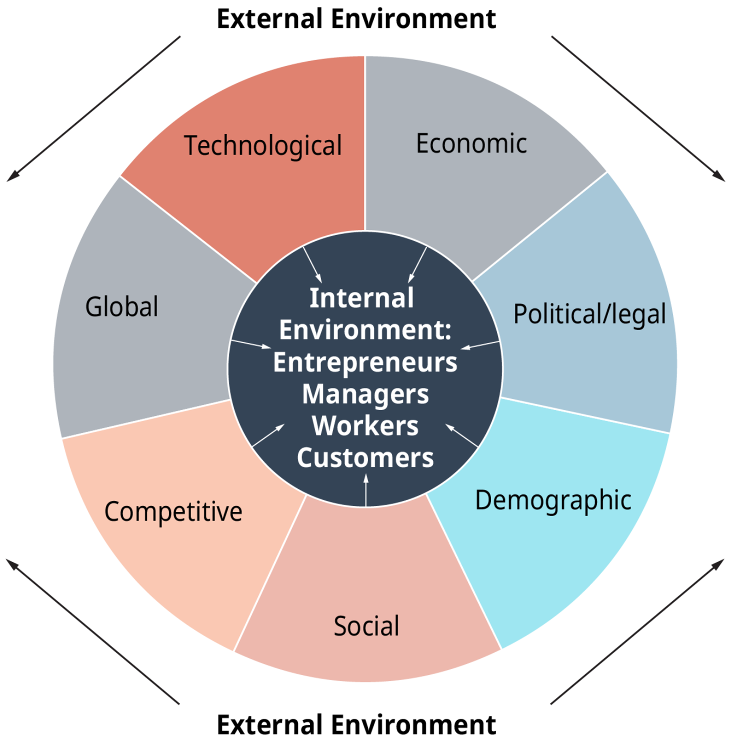


Fig. 1.1 Diagram-external environments of business: economics, technology, social, political, legal; and internal environments: entrepreneurs, managers, workers. "Understanding the Business Environment." *Introduction to Business* OpenStax

Unit 1: Guiding Questions

- What are the forms and types of business organizations?
- Who are the internal and external stakeholders of a business or organization?
- What is the impact of internal and external environments on an organization?

Unit 1: Learning Objectives

After completing Unit 1, I will be able to...

- identify the three forms and types of business organizations.
- define the internal environment of an organization.
- define the external environment of an organization.
- describe the impact of internal and external environments have on an organization.

Unit 1: Key Terms to Learn and Understand

- economic forces
- technological forces
- government/legislative forces
- sociocultural forces
- corporation
- sole proprietorship
- partnership

1.2: Learn the Basics of Business

You might want to pursue a career as a physician, florist, game warden, systems analyst, or any of a thousand other opportunities. One thing that all careers have in common is that you need to have a basic understanding of business. We hope that you will consider a career in business, but if not, your success in whatever you choose will partially depend on your basic business skills. And that is why this text is so important.


JOY HARROLD

Exhibit **17.2** Finding one's dream job requires combing through job descriptions, researching salary information, taking career-assessment tests, and shadowing others in the workplace. But sometimes people need some career advice or mentorship to "pivot" to a new career or to fine-tune their current job skills. That's where Pivot Planet comes in—the company connects people around the world for a reasonable fee with advisors who offer one-on-one video and phone sessions to answers questions and provide insights about their particular profession. *How can this type of advice and mentorship help individuals longing to change their career paths?* (Credit: U.S. Fish and Wildlife Service Southeast Region/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Choose a Career

Because this introductory business course gives you a detailed overview of all of the areas of commerce, it will guide you in selecting a major should you elect to get a degree in business. Choosing a major in college is one of life's true milestones. Your major essentially determines how you will spend the next four decades of your life. A marketing major will find a career in sales, marketing research, advertising, or other marketing-related fields. An accounting major will become (you guessed it) an accountant. *Never* take selecting a major lightly. If you work 40 hours a week for the next 45 years (less vacations), you will put in about 90,000 hours on the job. Don't you think you should choose something that you will enjoy?

1.3: Developing Interpersonal Skills Is Key to Your Success

A degree in business is going to offer you many great career opportunities. Once you take your first job, how rapidly you move up the ladder is up to you. People with great interpersonal skills will always do better on and off the job than those who lack them. It has been estimated that up to 90 percent of our workplace success depends on an understanding of other people.[1] Here's how to enhance your interpersonal skills:

1. **Build your people skills.** Learn to build alliances in a group and establish harmony. Make a concerted effort to know what is happening in the lives of those on your team at school and work. About once a month, get together with your group, and pass out a list of issues, concerns, fears, and potential problems. Then invite everyone to give input to solve little problems before the problems become big. If something goes wrong, try to find out where things are not running smoothly and improve them. Be sure to compliment someone in your group who is doing an exceptional job.

   Become a good listener. When you listen well, you are in effect telling the other person that he or she is worth listening to. Listening well includes listening to both what is said and what is not said. Learn to read unspoken gestures and expressions. When giving feedback, plan what you will say in advance. Be positive and specific. Ask the person receiving the feedback if they would like to discuss your comments further.

2. **Understand how to persuade others.** Remember: we all must sell ourselves and our ideas to get ahead in life and in business. Influencing others means overcoming objections, igniting passions, or changing minds. The first step is to build *esprit de corps,* a shared enthusiasm and devotion to the group. Make your vision their vision so that everyone is working toward a common goal. Praise the team as a whole, but recognize the unique contributions different team members have made. The trick is to praise everyone but for different reasons. When you and your team successfully solve a problem, change will result.

   Persuasion rests on trust. You can build trust by being honest, fulfilling your commitments, being concerned about others, and minimizing problems and pain for others whenever possible. In short, if you have integrity, building trust becomes a simple task.

   When people raise objections to your plans or ideas, try to fully understand their comments and the motivation for making them. When you feel that you understand the true objection, answer the objection in the form of a benefit: "Yes, you will need to work next Saturday, but then you can have compensatory time off anytime you wish next month." Determine your persuasion skills by taking the quiz in **Table 17.1.**

3. **Learn to think on your feet.** Top executives say that thinking and speaking well on your feet while under pressure is the best thing that you can do for your career. If you cannot quickly express yourself with confidence, others will lose confidence in you. [2]

Fun Self-Test—Can You Persuade Others?				
Rate your level of agreement with the statements below using the following scale:				
Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. I prefer to work in a team rather than individually. 2. I enjoy motivating others to help accomplish objectives. 3. I avoid working with difficult people or trying to resolve group differences. 4. I can learn more working in a team rather than working by myself. 5. I would prefer to work with individuals I have known previously. 6. I give up if my team members do not agree with me. 7. I may not always convince my team members to agree with my opinions, but I will go ahead and do what I feel is correct. 8. I think people who can persuade others always possess sound judgment. 9. I will do the work myself if others do not agree to do it. 10. To get the work done, I will listen to a person to understand how he/she wants it to be done. 11. I can get people to voluntarily make commitments and get the work done.[3]				
See the scoring guidelines at the end of this chapter to obtain your score.				

Table17.1

It will not happen overnight, but you can become an outstanding thinker and speaker. A simple technique is to set a timer for two minutes and ask a friend to begin speaking. When the timer goes off, your friend stops speaking, and you begin talking. The challenge is to use the final thought that your friend spoke as the first word of your two-minute talk. Another technique is to have someone supply you with a series of quotes. Then, without hesitation, give your interpretation.

4. **Empower yourself.** No matter who you are, what position you will hold, or where you will work, you probably will have to report to somebody. If you are fortunate enough to work in a culture of empowerment, you are allowed control over your job (not complete control, but enough control to make you feel your opinion matters). When you are not given an opportunity to provide input, you will eventually lose interest in your job. When empowered, you have the confidence to do something to alter your circumstances. On the job, empowerment means that you can make decisions to benefit the organization and its customers.

   If you want to gain empowerment in your life and work, here are a few tips: be assertive, ask for credit for yourself when it is due, propose ideas to your group and your supervisor, initiate projects without being asked, tie your personal goals to those of the organization, develop your leadership skills, plan to learn on a continuous basis, be informed, don't let others intimidate you, and don't complain about a bad situation—instead, take action to improve it.

5. **Become politically savvy.** Politics is an inevitable part of every organization in the United States, including your school. Politics has always been a part of the workplace and always will be. The trick is to learn to play the political game to your own advantage *and* to the advantage of others without causing harm to anyone else. Being political means getting along with others in order to move them toward accomplishing a specific goal. It does not mean maneuvering for selfish purposes, manipulating in order to deceive, or scheming so others lose while you win.

   Here are some tips and techniques to be an effective player in the political game:

   - *Think about what you say.* Understand the effect your words will have on others before you say or write them.
   - *Empathize.* Try to think of a situation from the other person's perspective.
   - *Suggest a trial period if you meet opposition to an idea you're proposing.* If you are as successful as you are confident, you can then ask to have the trial period extended.
   - *Learn about the political climate in which you are working.* This means knowing, among other things, what actions have led to failure for others, knowing who is "in" and why, determining who is "out" and why, and learning what behaviors lead to promotion.
   - *Volunteer to do the jobs no one else wants to do.* Occasionally pitching in shows your willingness to get the job done. However, do not make this your trademark; you do not want others to think they can take advantage of you.
   - *Work hard to meet the needs of those in authority.* Make certain you fully understand management's requirements; then go out of your way to meet them. If in time you do not think you are getting the recognition or respect you deserve, make your own needs known.
   - *Give credit to others.* You never know who may be in a position to hurt or harm you. Consequently, the best policy is to treat everyone with respect and dignity. Show your appreciation to everyone who has helped you. Do not steal credit that belongs to someone else.
   - *Learn your supervisor's preferences.* The more you are in sync with your supervisor's style, wishes, and preferences, the better you can do your job. However, do not be a rubber stamp. Rather, work the way your manager works. When necessary, suggest better ways of doing things.
   - *Keep secrets—your own and others'.* Resist the temptation to tell all. Not only do you run the risk of being labeled a gossip, but if you share too much about yourself, your words may come back to haunt you. If you are revealing information told to you in confidence, you are bound to lose the trust and respect of those who originally confided in you.

   Find out how well you play the political game by taking the quiz in **Table 17.2**.

6. **Become a team builder.** Throughout your college and business career, you will participate on teams. Most U.S. business organizations employ some sort of teamwork. An effective team is one that meets its goals on time and, if a budget is involved, within budget. The first step in creating an effective team is to have goals that are clear, realistic, and supported by each team member and that parallel the larger organization goals. **Table 17.3** lists the questions that teams should answer to ensure their success.

Fun Self-Test—Can You Play the Political Game?
Rate your level of agreement with the statements below using the following scale:

Fun Self-Test—Can You Play the Political Game?

Strongly Agree | Agree | Neither Agree nor Disagree | Disagree | Strongly Disagree

Rate your level of agreement with the statements below using the following scale:

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree

1. To be successful, you should have a strong relationship with your boss and subordinates.
2. Office politics is not very challenging.
3. Tough people give you a tough time but also teach you tough lessons.
4. Networking and observation play a major role in being good at office politics.
5. There is no ethics or morals in office politics.
6. Corporate politics is not about the individuals; it is about the survival of the corporation.
7. Office politics is the only way; you gain real access to your boss's ear.
8. Those who avoid being political at work may not move forward in their careers, may find themselves resentful and frustrated, and run the risk of being isolated.
9. If you do all of the work on a project, you won't tell the boss because you don't want your coworkers to get in trouble.
10. When faced with gossip and rumors, you prefer to be silent but aware.
11. To master office politics, you should seek a win-lose situation.
12. If a person in authority is out to get rid of you, a good tactic would be to establish allies and position yourself for another job in the company.
13. If you have made any significant contribution to a project, you always make sure that others know about it, which, in turn, adds to your reputation.[4]

See the scoring guidelines at the end of this chapter to obtain your score.

Table17.2

Key Questions That Teams Should Answer before Starting a Project

1. What are the goals?
2. Who provides the mission statement?
3. What are our limits?
4. Where will support come from? Who will be our sponsor?
5. Who will be team leader? How is that person selected?
6. What are the deadlines we face?
7. What resources are available?
8. What data will we need to collect?
9. For how long will our team exist?
10. Who are the customers for our team results? What do they expect of us?
11. Will our team responsibilities conflict with our regular jobs?
12. What is the reward for success?
13. How will decisions be made?
14. How will our efforts be measured?
15. Will our intended success be replicated? If so, how and by whom?[5]

See the scoring guidelines at the end of this chapter to obtain your score.

Table17.3

7. **Handle conflict well.** The world is not a perfect place, and there are no perfect people living in it. The best we can hope for is people's willingness to improve life's circumstances. If we are truly committed to the idea of reducing school and workplace conflict, there is much we can do to inspire such willingness in others. Bringing conflict into the open has its advantages. Talking about conflict often helps to clear the air, and thinking about the possibility of conflict often helps to avoid it.

   When conflicts occur, try the K-I-N-D technique. The letters stand for:

- K = Kind
- I = Informed
- N = New
- D = Definite

The technique involves your requesting a meeting with the difficult person, whether he or she is having a conflict with you or with others. Start off with kind words, words that encourage cooperation, words that show your determination to make the conflict situation better. Next, demonstrate that you have taken the time to learn more about the person, what is important to him or her, what he or she prefers in terms of work. Show by your words that you have taken the time to become informed about the individual.

The third step requires you to do something novel, something you have not tried before. Put your creativity to work, and discover a plan to which you can both subscribe (for example, keeping a journal regarding the problem and possible solutions).

Finally, do not permit the exchange to conclude until you have made a definite overture to ensure future success. What can you promise the other person you will do differently? What are you asking him or her to do differently? Set a time to meet again and review your individual attempts to achieve collective improvement.

1.4: Organizational Designs and Structures

Learning Objectives

1. Identify different types of organizational structures and their strengths and weaknesses.

A 2017 Deloitte source asked, before answering, "Why has organizational design zoomed to the top of the list as the most important trend in the Global Human Capital Trends survey for two years in a row?"[20] The source continued, "The answer is simple: The way high-performing organizations operate today is radically different from how they operated 10 years ago. Yet many other organizations continue to operate according to industrial-age models that are 100 years old or more."[21]

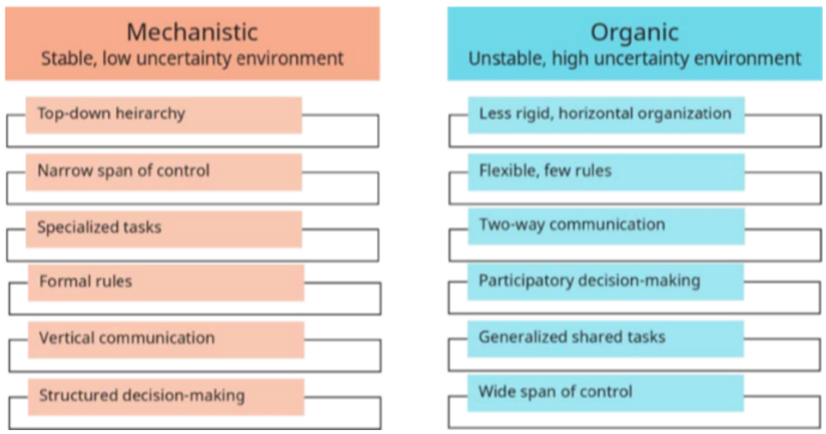


Exhibit 4.5 Mechanistic and Organic Organizations (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Early organizational theorists broadly categorized **organizational structures** and systems as either mechanistic or organic.[22] This broad, generalized characterization of organizations remains relevant. **Mechanistic organizational structures** (Exhibit 4.5) are best suited for environments that range from stable and simple to low-moderate uncertainty (Exhibit 4.4) and are characterized by top-down hierarchies of control that are rule-based. The chain of command is highly centralized and uses formal authority; tasks are clearly defined and differentiated to be executed by specific specialized experts. Bosses and supervisors have fewer people working directly under them (i.e., a narrow span of control), and the organization is governed by rigid departmentalization (i.e., an organization is divided into different departments that perform specialized tasks according to the departments' expertise). This form of organization represents a traditional type of structure that evolved in environments that were, as noted above, stable with low complexity. Historically, the U.S. Postal Service and other manufacturing types of industries (Exhibit 4.4) were mechanistic. Again, this type of organizational design may still be relevant, as Exhibit 4.4suggests, in simple, stable, low-uncertainty environments.

Organic organizational structures and systems, however, have opposite characteristics from mechanistic ones. AsExhibit 4.4shows, these organizational forms work best in unstable, complex, changing environments. Their structures are flatter, with participatory communication and decision-making flowing in different directions. There is more fluidity and less-rigid ways of performing tasks; there may also be fewer rules. Tasks are more generalized and shared; there is a wider span of control (i.e., more people reporting to managers).Exhibit 4.5offers examples of organically structured industries, such as high tech, computer, aerospace, and telecommunications industries, that must deal with change and uncertainty. Contemporary corporations and firms engaged in fast-paced, highly competitive, rapidly changing, and turbulent environments are becoming more organic in different ways, as we will discuss in this chapter. However, not every organization or every part of most organizations may require an organic type of structure. Understanding different organizational designs and structures is important to discern when, where, and under what circumstances a type of mechanistic system or part of an organization would be needed. The following section discusses five types of structures with variations.

Types of Organizational Structures

Within the context of mechanistic versus organic structures, specific types of organizational structures in the United States historically evolved over at least three eras, as we discuss here before explaining types of organizational designs. During the first era, the mid-1800s to the late 1970s, organizations were mechanistic self-contained, top-down pyramids.23 Emphasis was placed on internal organizational processes of taking in raw materials, transforming those into products, and turning them out to customers.

Early organizational structures were focused on internal hierarchical control and separate functional specializations in order to adapt to external environments. Structures during this era grouped people into functions or departments, specified reporting relationships among those people and departments, and developed systems to coordinate and integrate work horizontally and vertically. As will be explained, the **functional structure** evolved first, followed by the divisional structure and then the matrix structured.

The second era started in the 1980s and extended through the mid-1990s. More-complex environments, markets, and technologies strained mechanistic organizational structures. Competition from Japan in the auto industry and complex transactions in the banking, insurance, and other industries that emphasized customer value, demand and faster interactions, quality, and results issued the need for more organic organizational designs and structures.

Communication and coordination between and among internal organizational units and external customers, suppliers, and other stakeholders required higher levels of integration and speed of informational processing. Personal computers and networks had also entered the scene. In effect, the so-called "horizontal organization" was born, which emphasized "reengineering along workflow processes that link organizational capabilities to customers and suppliers."[24] Ford, Xerox Corp., Lexmark, and Eastman Kodak Company are examples of early adopters of the **horizontal organizational design**, which, unlike the top-down pyramid structures in the first era, brought flattened hierarchical, hybrid structures and cross-functional teams.

The third era started in the mid-1990s and extends to the present. Several factors contributed to the rise of this era: the Internet; global competition—particularly from China and India with low-cost labor; automation of supply chains; and outsourcing of expertise to speed up production and delivery of products and services. The so-called silos and walls of organizations opened up; everything could not be or did not have to be produced within the confines of an organization, especially if corporations were cutting costs and outsourcing different functions of products to save costs. During this period, further extensions of the horizontal and organic types of structures evolved: the divisional, matrix, global geographic, modular, team-based, and virtual structures were created.

In the following discussion, we identify major types of structures mentioned above and discuss the advantages and disadvantages of each, referenced inExhibit 4.6. Note that in many larger national and international corporations, there is a mix and match among different structures used. There are also advantages and disadvantages of each structure. Again, organizational structures are designed to fit with external environments. Depending on the type of environments from our earlier discussion in which a company operates, the structure should facilitate that organization's capability to achieve its vision, mission, and goals.

Exhibit 4.6 offers a profile of different structures that evolved in our discussion above.

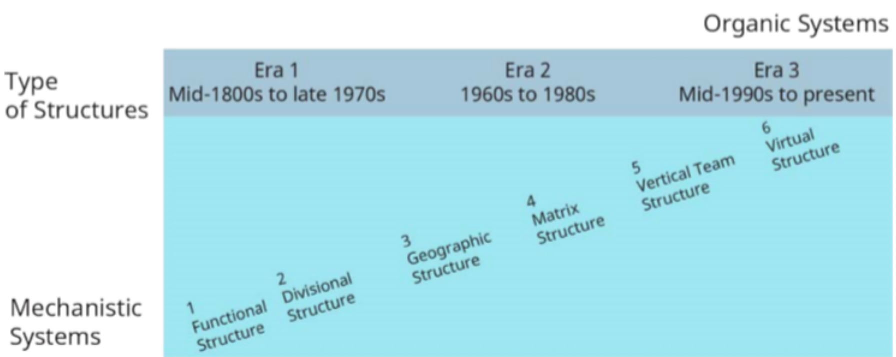


Exhibit 4.6 Evolution of Organizational Structure Adapted from: Daft, R., 2016, Organization Theory and Design, 12th edition, Cengage learning, Chapter 3; Warren, N., "Hitting the Sweet Spot Between Specialization and Integration in Organizational Design", People and Strategy, 34, No. 1, 2012, pp. 24-30.

Note the continuum inExhibit 4.6, showing the earliest form of organizational structure, functional, evolving with more complex environments to divisional, matrix, team-based, and then virtual. This evolution, as discussed above, is presented as a continuum from mechanistic to organic structures—moving from more simple, stable environments to complex, changing ones, as illustrated inExhibit 4.6. The six types of organizational structures discussed here include functional, divisional, geographic, matrix, networked/team, and virtual.[25]

The functional structure, shown inExhibit 4.7, is among the earliest and most used organizational designs. This structure is organized by departments and expertise areas, such as R&D (research & development), production, accounting, and human resources. Functional organizations are referred to as pyramid structures since they are governed as a hierarchical, top-down control system.

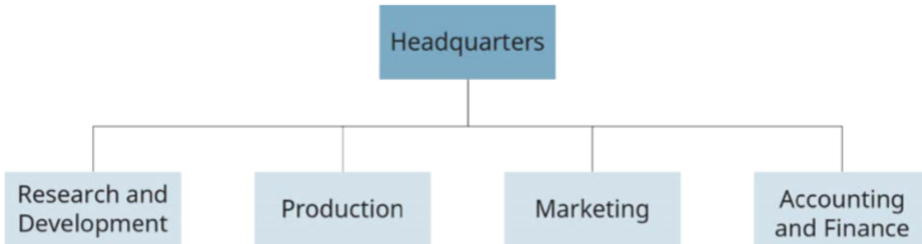


Exhibit 4.7 Functional Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Small companies, start-ups, and organizations working in simple, stable environments use this structure, as do many large government organizations and divisions of large companies for certain tasks.

The functional structure excels in providing for a high degree of specialization and a simple and straightforward reporting system within departments, offers economies of scale, and is not difficult to scale if and when the organization grows. Disadvantages of this structure include isolation of departments from each other since they tend to form “silos,” which are characterized by closed mindsets that are not open to communicating across departments, lack of quick decision-making and coordination of tasks across departments, and competition for power and resources.

Divisional structures, see Exhibit 4.8, are, in effect, many functional departments grouped under a division head. Each functional group in a division has its own marketing, sales, accounting, manufacturing, and production team. This structure resembles a product structure that also has profit centers. These smaller functional areas or departments can also be grouped by different markets, geographies, products, services, or other whatever is required by the company’s business. The market-based structure is ideal for an organization that has products or services that are unique to specific market segments and is particularly effective if that organization has advanced knowledge of those segments.

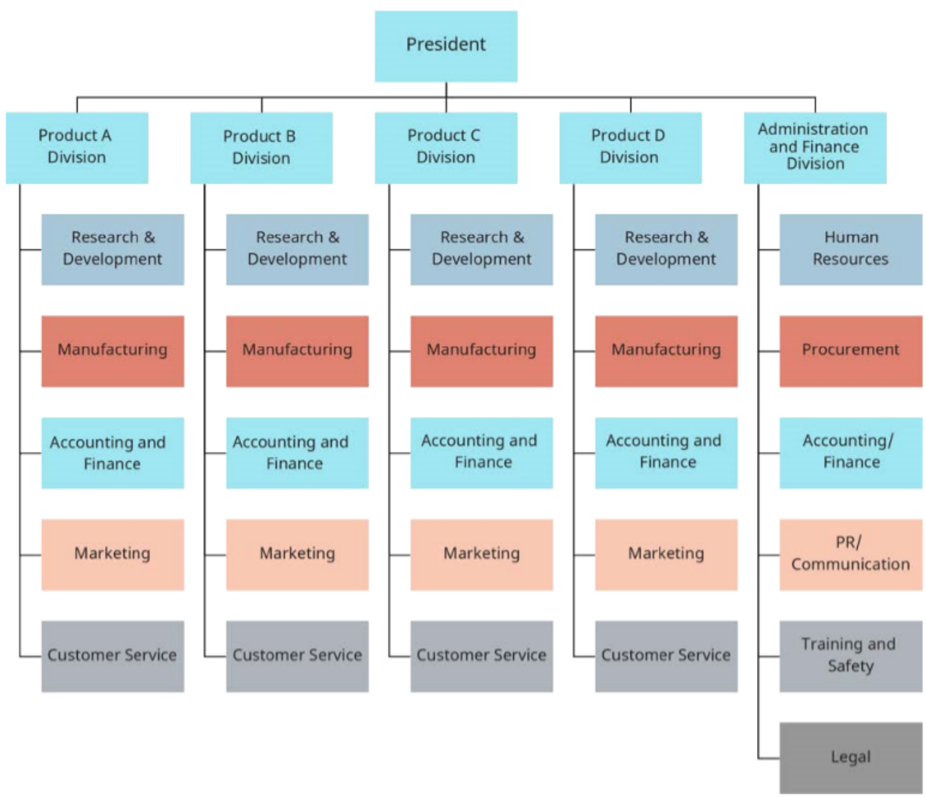


Exhibit 4.8 Divisional Organization Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The advantages of a divisional structure include the following: each specialty area can be more focused on the business segment and budget that it manages; everyone can more easily know their responsibilities and accountability expectations; customer contact and service can be quicker; and coordination within a divisional grouping is easier, since all the functions are accessible. The divisional structure is also helpful for large companies since decentralized decision-making means that headquarters does not have to micromanage all the divisions. The disadvantages of this structure from a headquarters perspective are that divisions can easily become isolated and insular from one another and that different systems, such as accounting, finance, sales, and so on, may suffer from poor and infrequent communication and coordination of enterprise mission, direction, and values. Moreover, incompatibility of systems (technology, accounting, advertising, budgets) can occur, which creates a strain on company strategic goals and objectives.

A **geographic structure**, Exhibit 4.9, is another option aimed at moving from a mechanistic to more organic design to serve customers faster and with relevant products and services; as such, this structure is organized by locations of customers that a company serves. This structure evolved as companies became more national, international, and global. Geographic structures resemble and are extensions of the divisional structure.

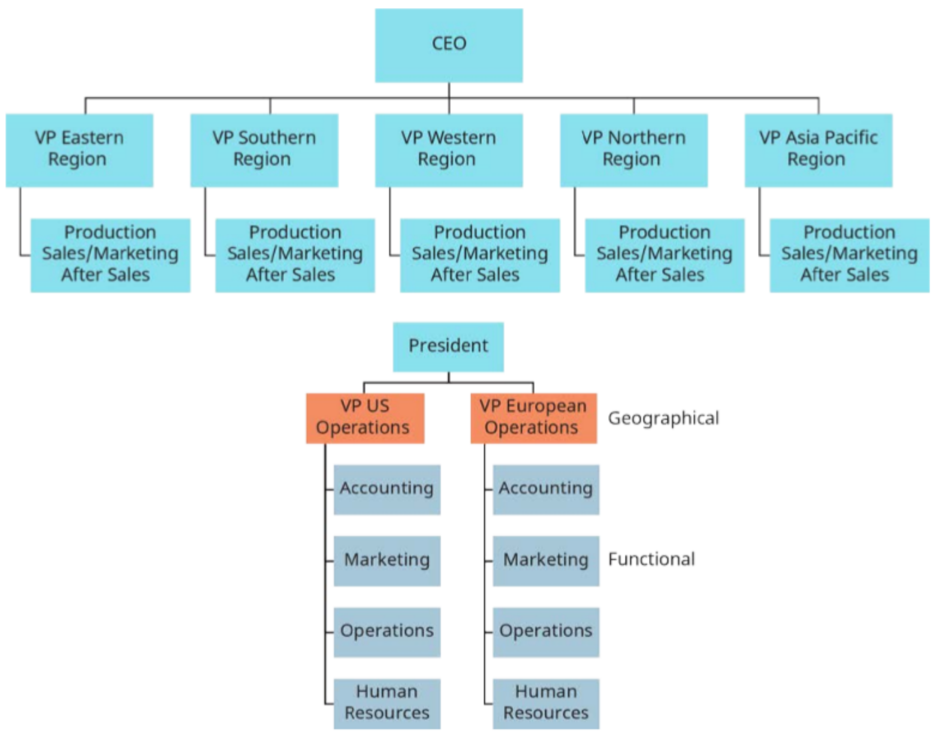


Exhibit 4.9 Geographic Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Organizing geographically enables each geographic organizational unit (like a division) the ability to understand, research, and design products and/or services with the knowledge of customer needs, tastes, and cultural differences. The advantages and disadvantages of the geographic structure are similar to those of the divisional structure. Headquarters must ensure effective coordination and control over each somewhat autonomous geographically self-contained structure.

The main downside of a geographical organizational structure is that it can be easy for decision-making to become decentralized, as geographic divisions (which can be hundreds if not thousands of miles away from corporate headquarters) often have a great deal of autonomy.

Exhibit 4.10 IBM China IBM has chosen a geographic structure which is aimed at moving from a mechanistic to more organic design to serve customers faster and with relevant products and services; as such, this structure is organized by locations of customers that a company serves. This structure evolved as companies became more national, international, and global. Geographic structures resemble and are extensions of the divisional structure. (Credit: Cory Denton/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

Matrix structures, illustrated in Exhibit 4.6 and depicted in Exhibit 4.11, move closer to organic systems in an attempt to respond to environmental uncertainty, complexity, and instability. The matrix structure actually originated at a time in the 1960s when U.S. aerospace firms contracted with the government. Aerospace firms were required to "develop charts showing the structure of the project management team that would be executing the contract and how this team was related to the overall management structure of the organization." As such, employees would be required to have dual reporting relationships—with the government and the aerospace company.[26] Since that time, this structure has been imitated and used by other industries and companies since it provides flexibility and helps integrate decision-making in functionally organized companies.

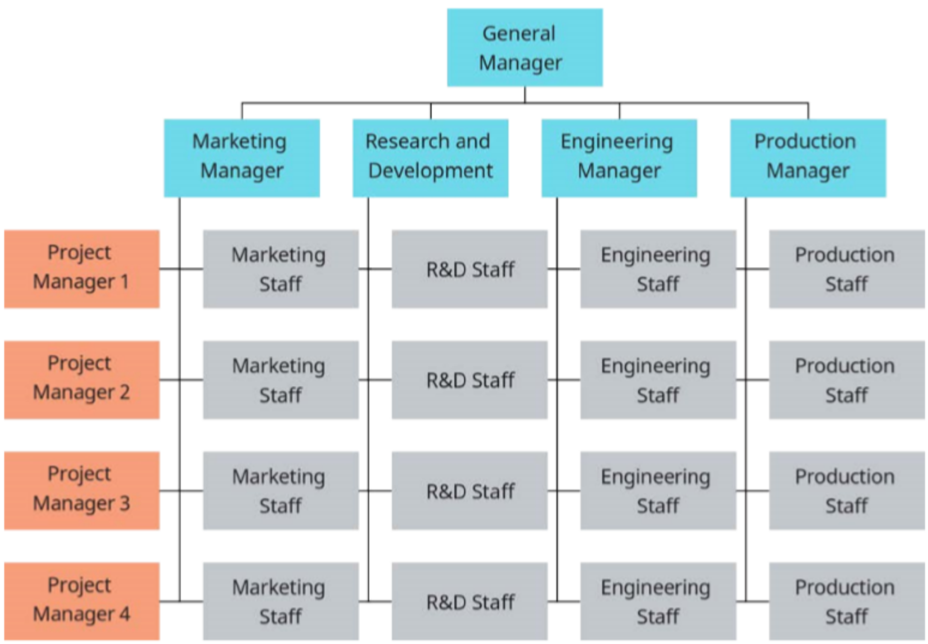


Exhibit 4.11 Matrix Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Matrix designs use teams to combine vertical with horizontal structures. The traditional functional or vertical structure and chain of command maintains control over employees who work on teams that cut across functional areas, creating horizontal coordination that focuses projects that have deadlines and goals to meet within and often times in addition to those of departments. In effect, matrix structures initiated horizontal team-based structures that provided faster information sharing, coordination, and integration between the formal organization and profit-oriented projects and programs.

As Exhibit 4.11illustrates, this structure has lines of formal authority along two dimensions: employees report to a functional, departmental boss and simultaneously to a product or project team boss. One of the weaknesses of matrix structures is the confusion and conflicts employees experience in reporting to two bosses. To work effectively, employees (including their bosses and project leaders) who work in dual-authority matrix structures require good interpersonal communication, conflict management, and political skills to manage up and down the organization.

Different types of matrix structures, some resembling virtual team designs, are used in more complex environments.[27] For example, there are cross-functional matrix teams in which team members from other organizational departments report to an "activity leader" who is not their formal supervisor or boss. There are also functional matrix teams where employees from the same department coordinate across another internal matrix team consisting of, for example, HR or other functional area specialists, who come together to develop a limited but focused common short-term goal. There are also global matrix teams consisting of employees from different regions, countries, time zones, and cultures who are assembled to achieve a short-term project goal of a particular customer. Matrix team members have been and are a growing part of horizontal organizations that cut across geographies, time zones, skills, and traditional authority structures to solve customer and even enterprise organizational needs and demands.

As part of the next discussed organizational type of structure, networked teams, organizational members in matrix structures must "learn how to collaborate with colleagues across distance, cultures and other barriers. Matrix team members often suffer from the problem of divided loyalties where they have both team and functional goals that compete for their time and attention, they have multiple bosses and often work on multiple teams at the same time. For some matrix team members this may be the first time they have been given accountability for results that are broader than delivery of their functional goals. Some individuals relish the breath and development that the matrix team offers and others feel exposed and out of control." To succeed in these types of horizontal organizational structures, organizational members "should focus less on the structure and more on behaviors."[28]

Networked team structures are another form of the horizontal organization. Moving beyond the matrix structure, networked teams are more informal and flexible. "[N]etworks have two salient characteristics: clustering and path length. Clustering refers to the degree to which a network is made up of tightly knit groups while path lengths is a measure of distance—the average number of links separating any two nodes in the network."[29] A more technical explanation can be found in this footnote source.[30] For our purposes here, a networked organizational structure is one that naturally forms after being initially assigned. Based on the vision, mission, and needs of a problem or opportunity, team members will find others who can help—if the larger organization and leaders do not prevent or obstruct that process.

There is not one classical depiction of this structure, since different companies initially design teams to solve problems, find opportunities, and discover resources to do so. Stated another way, "The networked organization is one that is connected together by informal networks and the demands of the task, rather than a formal organizational structure. The network organization prioritizes its 'soft structure' of relationships, networks, teams, groups and communities rather than reporting lines."[31] Exhibit 4.12 is a suggested illustration of this structure.

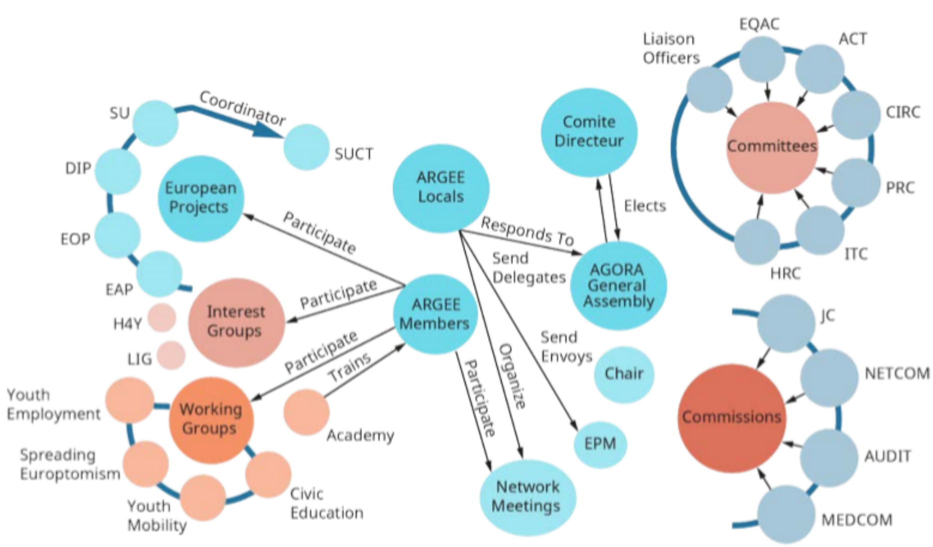


Exhibit 4.12 Networked Team Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

A Deloitte source based on the 2017 Global Human Capital Trend study stated that as organizations continue to transition from vertical structures to more organic ones, networked global designs are being adapted to larger companies that require more reach and scope and quicker response time with customers: “Research shows that we spend two orders of magnitude more time with people near our desk than with those more than 50 meters away. Whatever a hierarchical organization chart says, real, day-to-day work gets done in networks. This is why the organization of the future is a ‘network of teams.’”[32]

Advantages of networked organizations are similar to those stated earlier with regard to organic, horizontal, and matrix structures. Weaknesses of the networked structure include the following: (1) Establishing clear lines of communication to produce project assignments and due dates to employees is needed. (2) Dependence on technology—Internet connections and phone lines in particular—is necessary. Delays in communication result from computer crashes, network traffic errors and problems; electronic information sharing across country borders can also be difficult. (3) Not having a central physical location where all employees work, or can assemble occasionally to have face-to-face meetings and check results, can result in errors, strained relationships, and lack of on-time project deliverables.[33]

Virtual structures and organizations emerged in the 1990s as a response to requiring more flexibility, solution-based tasks on demand, fewer geographical constraints, and accessibility to dispersed expertise.34 Virtual structures are depicted in Exhibit 4.13. Related to so-called modular and digital organizations, virtual structures are dependent on information communication technologies (ICTs).

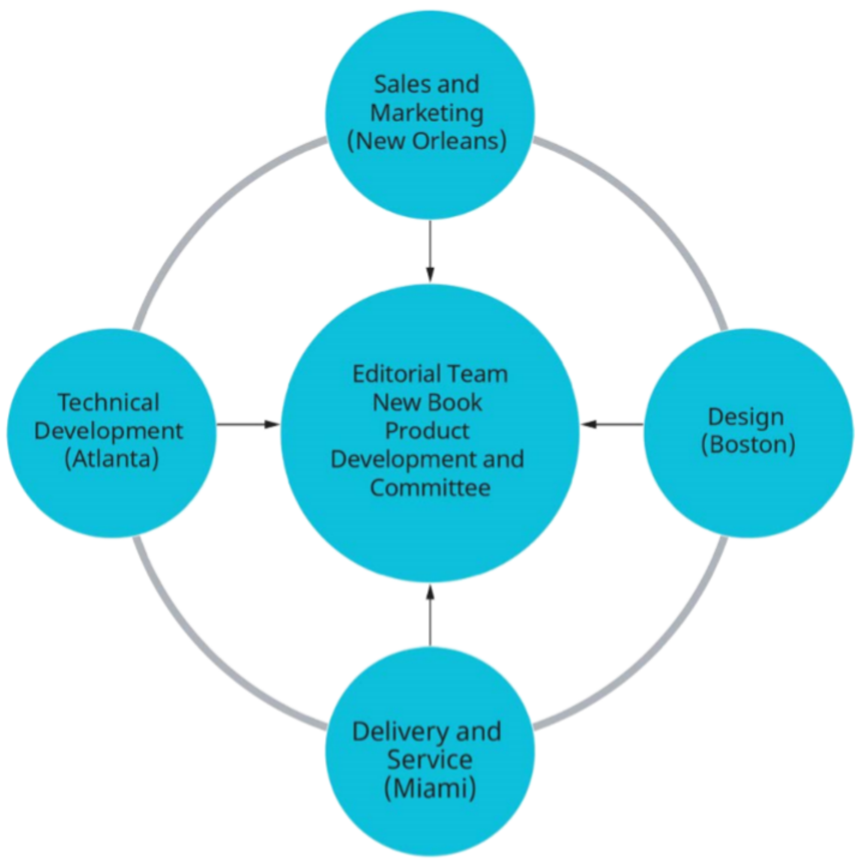


Exhibit 4.13 Virtual Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

These organizations move beyond network team structures in that the headquarters or home base may be the only or part of part of a stable organizational base. Otherwise, this is a “boundaryless organization.” Examples of organizations that use virtual teams are Uber, Airbnb, Amazon, Reebok, Nike, Puma, and Dell. Increasingly, organizations are using different variations of virtual structures with call centers and other outsourced tasks, positions, and even projects.

Exhibit 4.14 Using Technological Disruption Information technologies and social media powered by the internet and used by sharing economy companies such as Airbnb and Uber have democratized and increased, if not leveled, competition across several industries such taxis, real estate rentals, and hospitality services. (Credit: Grid Engine/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Advantages of virtual teams and organizations include cost savings, decreased response time to customers, greater access to a diverse labor force not encumbered by 8-hour workdays, and less harmful effects on the environment. “The telecommuting policies of Dell, Aetna, and Xerox cumulatively saved 95,294 metric tons of greenhouse gas emissions last year, which is the equivalent of taking 20,000 passenger vehicles off of the road.”[35] Disadvantages are social isolation of employees who work virtually, potential for lack of trust among employees and between the company and employees when communication is limited, and reduced collaboration among separated employees and the organization’s officers due to lack of social interaction.

In the following section, we turn to internal organizational dimensions that complement structure and are affected by and affect external environments.

Concept Check

1. Why does the matrix structure have a dual chain of command?
2. How does a matrix structure increase power struggles or reduce accountability?
3. What are advantages of a formal committee structure? Disadvantages?

References

20. Bersin, Josh, et al, “2017 Global Human Capital trends”, *Deloitte Insights*, February 28, 2017. https://www2.deloitte.com/insights/u...he-future.html

21. Ibid.

22. Burns, T. & Stalker, G. M. (1961), The Management of Innovation, Tavistock, London; Mintzberg, H. 1979. The structuring of organizations. Englewood Cliffs, NJ:Prentice-Hall; Emery, Fred E. and Eric L. Trist, (1965), "The Causal Texture of Organizational Environments", pp 21-32 inHuman Relations, February 1965

23. Anand, N. and R. Daft. (2007). What is the Right Organization Design? *Organizational Dynamics*, Vol. 36, No. 4, pp. 329–344.

24. Ibid.

25. This section draws on a number of scholarly and practitioner sources, including the following: R. Daft. (2016). Organization Theory & Design, 12th ed. *Cengage Learning*, Boston, MA; https://blog.hubspot.com/ marketing/team-structure-diagrams; Burton and Obel. (2018).Journal of Organization DesignVol. 7, Issue 5, Devaney, Erik, “7 types of organizational Structure & Whom They’re Suited For [Diagrams],Hubspot, accessed November 18, 2018. https://doi.org/10.1186/s41469-018-0029-2; “Matrix Teams”,Global Integration, accessed November 18, 2018. http://www.global-integration.com/gl.../matrix-teams/; and Bersin, josh,

"The organization of the Future: Arriving Now', 2017 Global Human Capital Trends,Deloitte Insights, February 28, 2017. https://www2.deloitte.com/insights/u...thefuture.html

26. Brent Durbin. Matrix organization, *Encyclopedia Britannica*, https://www.britannica.com/topic/matrixorganization

27. "Matrix Teams", *Global Integration*, accessed November 18, 2018. http://www.global-integration.com/ glossary/matrix-teams/

28. ibid.

29. G. Satell. (June 8, 2015). What Makes an Organization "Networked", *Harvard Business Review*, https://hbr.org/2015/06/what-makes-a...tion-networked

30. Satell, Greg, "The Story of Networks", *Digital Tonto*, September 26, 2010. https://www.digitaltonto.com/ 2010/the-story-of-networks/; and "Networked Organizations",Global Integration, accessed November 18, 2018. http://www.global-integration.com/gl.../matrix-teams/ http://www.global-integration.com/glossary/ networked-organization/

31. J. Bersin, T. McDowell, A. Rahnema, and Yves Van Durme. (February 28, 2017), "The organization of the future: Arriving now, 2017" Global Human Capital Trends,Deloitte. https://www2.deloitte.com/insights/us/en/ focus/human-capital-trends/2017/organization-of-the-future.html

32. Lister, Jonathan, "The Disadvantages of Network-based organizational Structure", *Chron*, accessed November 18, 2018. http://smallbusiness.chron.com/disad...ure-35988.html

33. Sources in this section include the following: C. Handy. (May–June 1995). Trust and the Virtual Organization, *Harvard Business Review*, https://hbr.org/1995/05/trust-and-th...l-organization; M. Ahuja and K. Carley. (1999), Network Structure in Virtual Organizations,Organization Science, Volume 10, Issue 6, June, pp. 741 – 757; http://www.yourarticlelibrary.com/or...nd-types/35533

34. D. Onley. (Apr 29, 2015), *Environment*, https://www.shrm.org/ResourcesAndToo...cs/technology/ Pages/How-Telecommuting-Helps-the-Environment.aspx

35. I. McCarthy, T. Lawrence, B. Wixted, and B. Gordon. (2010). A Multidimensional Conceptualization of Environmental Velocity, *Academy of Management Review* 34, no. 4, pp. 604-626

CHAPTER OVERVIEW

2: The Functions of Management

2.1: Guiding Questions | Learning Objectives | Key Terms

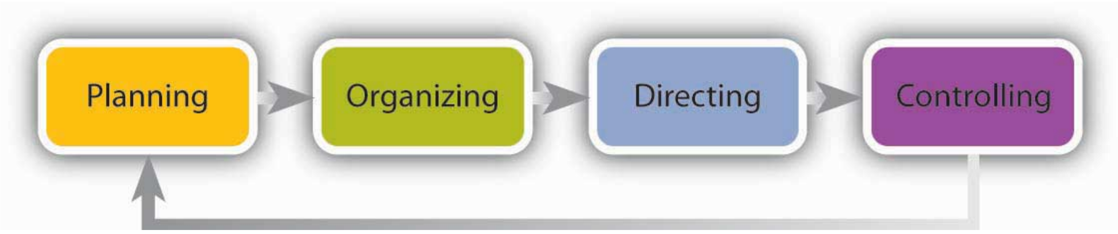


Fig. 2.1: "What do Mangers Do? *Introduction to Business (Lumen).* LibreTexts

Unit 2: Guiding Questions:

- What are the concepts of management and how are they significant to organizational success?
- What are the fundamental functions of management?
- What are the components and activities associated with each function of management?
- What is the role of leadership in management?
- What different careers are there in management?

Unit 2: Learning Objectives:

When I have completed Unit 2, I will be able to...

- explain the concept of planning
- explain the concept of organizing
- explain the concept of leading
- explain the concept of controlling
- identify different careers in management

Unit 2: Key Terms to Learn and Understand

- planning
- organizing
- controlling
- leading
- operations management
- leadership
- staffing
- strategic planning
- environmental scanning

2.2: What Do Managers Do?

> **Learning Objectives**
>
> 1. Understand what managers do to help organizations achieve top performance

Managers are in constant action. Virtually every study of managers in action has found that they "switch frequently from task to task, changing their focus of attention to respond to issues as they arise, and engaging in a large volume of tasks of short duration."3 Mintzberg observed CEOs on the job to get some idea of what they do and how they spend their time. He found, for instance, that they averaged 36 written and 16 verbal contacts per day, almost every one of them dealing with a distinct or different issue. Most of these activities were brief, lasting less than nine minutes.[4]

Kotter studied a number of successful general managers over a five-year period and found that they spend most of their time with others, including subordinates, their bosses, and numerous people from outside the organization. Kotter's study found that the average manager spent just 25% of his time working alone, and that time was spent largely at home, on airplanes, or commuting. Few of them spent less than 70% of their time with others, and some spent up to 90% of their working time this way.[5]

Kotter also found that the breadth of topics in their discussions with others was extremely wide, with unimportant issues taking time alongside important business matters. His study revealed that managers rarely make "big decisions" during these conversations and rarely give orders in a traditional sense. They often react to others' initiatives and spend substantial amounts of time in unplanned activities that aren't on their calendars. He found that managers will spend most of their time with others in short, disjointed conversations. "Discussions of a single question or issue rarely last more than ten minutes," he notes. "It is not at all unusual for a general manager to cover ten unrelated topics in a five-minute conversation."[6] More recently, managers studied by Sproull showed similar patterns. During the course of a day, they engaged in 58 different activities with an average duration of just nine minutes.[7]

Interruptions also appear to be a natural part of the job. Stewart found that the managers she studied could work uninterrupted for half an hour only nine times during the four weeks she studied them.[8] Managers, in fact, spend very little time by themselves. Contrary to the image offered by management textbooks, they are rarely alone drawing up plans or worrying about important decisions. Instead, they spend most of their time interacting with others—both inside and outside the organization. If casual interactions in hallways, phone conversations, one-on-one meetings, and larger group meetings are included, managers spend about two thirds of their time with other people.[9] As Mintzberg has pointed out, "Unlike other workers, the manager does not leave the telephone or the meeting to get back to work. Rather, these contacts are his work."[10]

The interactive nature of management means that most management work is conversational.[11] When managers are in action, they are talking and listening. Studies on the nature of managerial work indicate that managers spend about two-thirds to three-quarters of their time in verbal activity.[12] These verbal conversations, according to Eccles and Nohria, are the means by which managers gather information, stay on top of things, identify problems, negotiate shared meanings, develop plans, put things in motion, give orders, assert authority, develop relationships, and spread gossip. In short, they are what the manager's daily practice is all about. "Through other forms of talk, such as speeches and presentations," they write, "managers establish definitions and meanings for their own actions and give others a sense of what the organization is about, where it is at, and what it is up to."[13]

> **Concept Check**
>
> 1. What do managers do to help organizations achieve top performance?

References

3. Hannaway, J. (1989). *Managers Managing: The Workings of an Administrative System*. New York: Oxford University Press, P. 39; and Kotter, J. P. (1982). *The General Managers*. New York: The Free Press.

4. Mintzberg, H. (1973). *The Nature of Managerial Work*. New York: Harper & Row. P. 37.

5. Kotter, J. P. (1999). "What Effective General Managers Really Do," *Harvard Business Review*, March–April 1999, pp. 145–159.

6. Kotter, J. P. (1999). "What Effective General Managers Really Do," *Harvard Business Review*, March–April 1999, pp. 145–159.

7. Sproull, L. S. (1984).“The Nature of Managerial Attention,” in L. S. Sproull (ed.), *Advances in Information Processing in Organizations*. Greenwich, CT: JAI Press.

8. Stewart, R. (1967). *Managers and Their Jobs*. London: Macmillan.

9. Eccles, R. G. & Nohria, N. (1992). *Beyond the Hype: Rediscovering the Essence of Management*. Boston: The Harvard Business School Press, p. 47.

10. Mintzberg, H. (1973). *The Nature of Managerial Work*. New York: Harper & Row. P. 37.

11. Pondy, L. R. (1978). “Leadership Is a Language Game,” in M. W. McCall, Jr. and M. M. Lombardo (eds.), *Leadership: Where Else Can We Go?* Durham, NC: Duke University Press.

12. Mintzberg, H. (2009). *Managing*. San Francisco, Berrett-Kohler Publishers. P. 26-28.

13. Eccles, R. G. & Nohria, N. (1992). *Beyond the Hype: Rediscovering the Essence of Management*. Boston: The Harvard Business School Press, pp. 47-48.

2.3: Major Characteristics of the Manager's Job

Learning Objectives

1. Understand the characteristics that effective managers display

Time is fragmented. Managers have acknowledged from antiquity that they never seem to have enough time to get all those things done that need to be done. In the latter years of the twentieth century, however, a new phenomenon arose: demand for time from those in leadership roles increased, while the number of hours in a day remained constant. Increased work hours was one reaction to such demand, but managers quickly discovered that the day had just 24 hours and that working more of them produced diminishing marginal returns. According to one researcher, “Managers are overburdened with obligations yet cannot easily delegate their tasks. As a result, they are driven to overwork and forced to do many tasks superficially. Brevity, fragmentation, and verbal communication characterize their work.”20

Values compete and the various roles are in tension. Managers clearly cannot satisfy everyone. Employees want more time to do their jobs; customers want products and services delivered quickly and at high quality levels. Supervisors want more money to spend on equipment, training, and product development; shareholders want returns on investment maximized. A manager caught in the middle cannot deliver to each of these people what each most wants; decisions are often based on the urgency of the need and the proximity of the problem.

The job is overloaded. In recent years, many North American and global businesses were reorganized to make them more efficient, nimble, and competitive. For the most part, this reorganization meant decentralizing many processes along with the wholesale elimination of middle management layers. Many managers who survived such downsizing found that their number of direct reports had doubled. Classical management theory suggests that seven is the maximum number of direct reports a manager can reasonably handle. Today, high-speed information technology and remarkably efficient telecommunication systems mean that many managers have as many as 20 or 30 people reporting to them directly.

Efficiency is a core skill. With less time than they need, with time fragmented into increasingly smaller units during the workday, with the workplace following many managers out the door and even on vacation, and with many more responsibilities loaded onto managers in downsized, flatter organizations, efficiency has become the core management skill of the twenty-first century.

What Varies in a Manager’s Job?

The Emphasis The entrepreneur role is gaining importance. Managers must increasingly be aware of threats and opportunities in their environment. Threats include technological breakthroughs on the part of competitors, obsolescence in a manager’s organization, and dramatically shortened product cycles. Opportunities might include product or service niches that are underserved, out-of-cycle hiring opportunities, mergers, purchases, or upgrades in equipment, space, or other assets. Managers who are carefully attuned to the marketplace and competitive environment will look for opportunities to gain an advantage.

So is the leader role gaining importance. Managers must be more sophisticated as strategists and mentors. A manager’s job involves much more than simple caretaking in a division of a large organization. Unless organizations are able to attract, train, motivate, retain, and promote good people, they cannot possibly hope to gain advantage over the competition. Thus, as leaders, managers must constantly act as mentors to those in the organization with promise and potential. When organizations lose a highly capable worker, all else in their world will come to a halt until they can replace that worker. Even if they find someone ideally suited and superbly qualified for a vacant position, they must still train, motivate, and inspire that new recruit, and live with the knowledge that productivity levels will be lower for a while than they were with their previous employee.

Managerial Responsibilities

An important question often raised about managers is: What responsibilities do managers have in organizations? According to our definition, managers are involved in planning, organizing, directing, and controlling. Managers have described their responsibilities that can be aggregated into nine major types of activity. These include:

1. Long-range planning. Managers occupying executive positions are frequently involved in strategic planning and development.
2. Controlling. Managers evaluate and take corrective action concerning the allocation and use of human, financial, and material resources.

3. Environmental scanning. Managers must continually watch for changes in the business environment and monitor business indicators such as returns on equity or investment, economic indicators, business cycles, and so forth.
4. Supervision. Managers continually oversee the work of their subordinates. 5. Coordinating. Managers often must coordinate the work of others both inside the work unit and out.
5. Customer relations and marketing. Certain managers are involved in direct contact with customers and potential customers.
6. Community relations. Contact must be maintained and nurtured with representatives from various constituencies outside the company, including state and federal agencies, local civic groups, and suppliers.
7. Internal consulting. Some managers make use of their technical expertise to solve internal problems, acting as inside consultants for organizational change and development.
8. Monitoring products and services. Managers get involved in planning, scheduling, and monitoring the design, development, production, and delivery of the organization's products and services.

As we shall see, not every manager engages in all of these activities. Rather, different managers serve different roles and carry different responsibilities, depending upon where they are in the organizational hierarchy. We will begin by looking at several of the variations in managerial work.

Variations in Managerial Work

Although each manager may have a diverse set of responsibilities, including those mentioned above, the amount of time spent on each activity and the importance of that activity will vary considerably. The two most salient perceptions of a manager are (1) the manager's level in the organizational hierarchy and (2) the type of department or function for which he is responsible. Let us briefly consider each of these.

Management by Level

We can distinguish three general levels of management: executives, **middle management**, and **first-line management** (see Exhibit 1.3). **Executive managers** are at the top of the hierarchy and are responsible for the entire organization, especially its strategic direction. Middle managers, who are at the middle of the hierarchy, are responsible for major departments and may supervise other lower level managers. Finally, first-line managers supervise rank-and-file employees and carry out day-to-day activities within departments.21

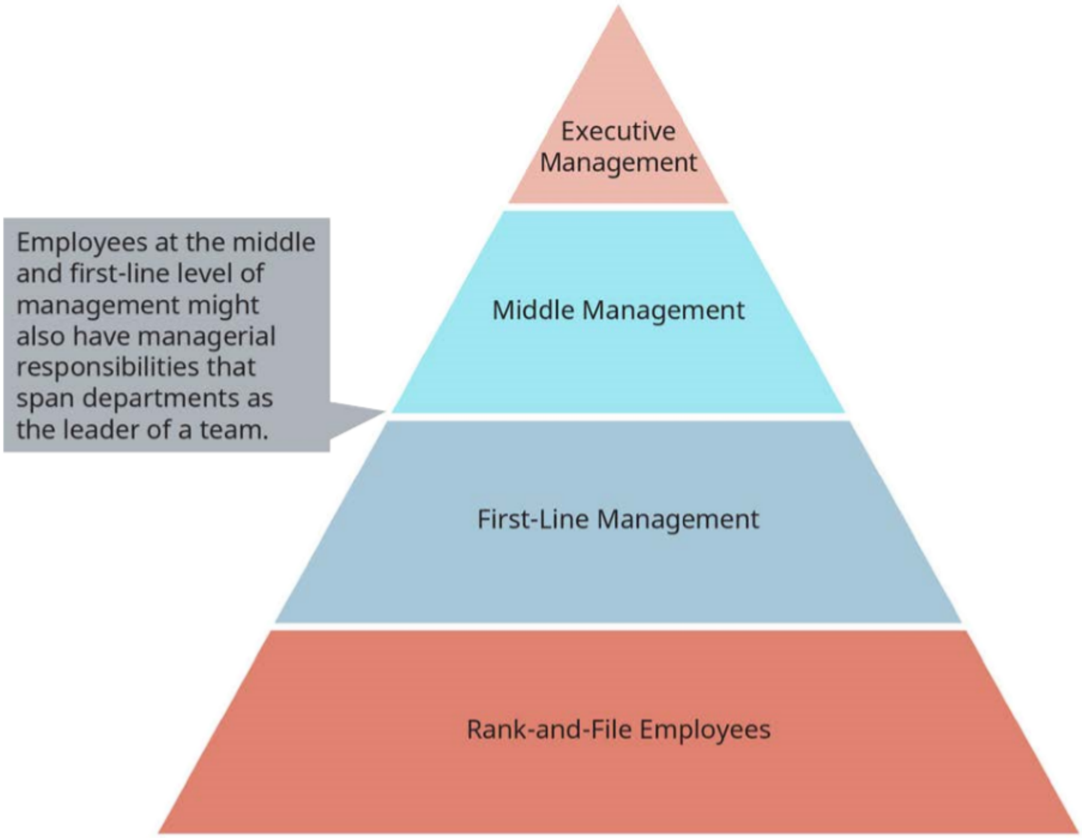


Exhibit 1.5 Levels in the Management Hierarchy (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Exhibit 1.5 shows differences in managerial activities by hierarchical level. Senior executives will devote more of their time to conceptual issues, while front-line managers will concentrate their efforts on technical issues. For example, top managers rate high on such activities as **long-range planning**, monitoring business indicators, coordinating, and internal consulting. Lower-level managers, by contrast, rate high on supervising because their responsibility is to accomplish tasks through rank-and-file employees. Middle managers rate near the middle for all activities. We can distinguish three types of managerial skills:

1. Technical skills. Managers must have the ability to use the tools, procedures, and techniques of their special areas. An accountant must have expertise in accounting principles, whereas a production manager must know operations management. These skills are the mechanics of the job.
2. Human relations skills. Human relations skills involve the ability to work with people and understand employee motivation and group processes. These skills allow the manager to become involved with and lead his group.
3. Conceptual skills. These skills represent a manager's ability to organize and analyze information in order to improve organizational performance. They include the ability to see the organization as a whole and to understand how various parts fit together to work as an integrated unit. These skills are required to coordinate the departments and divisions successfully so that the entire organization can pull together.

As shown inExhibit 1.6, different levels of these skills are required at different stages of the managerial hierarchy. That is, success in executive positions requires far more conceptual skill and less use of technical skills in most (but not all) situations, whereas first-line managers generally require more technical skills and fewer conceptual skills. Note, however, that human relations skills, or people skills, remain important for success at all three levels in the hierarchy.

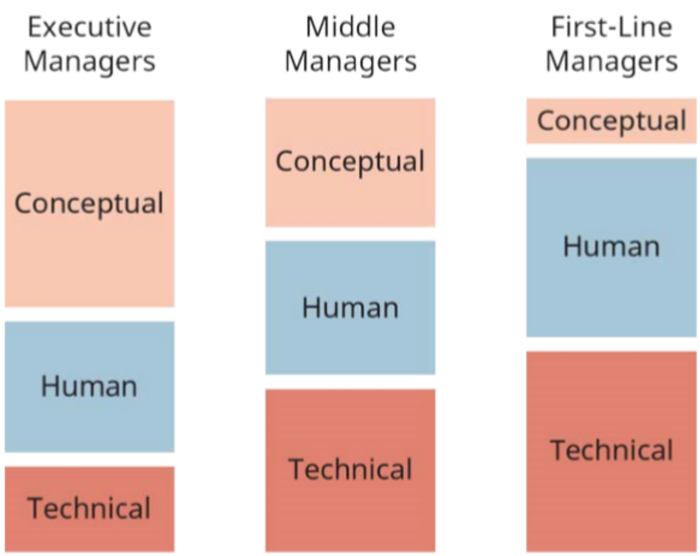


Exhibit 1.6 Difference in Skills Required for Successful Management According to Level in the Hierarchy (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Management by Department or Function

In addition to level in the hierarchy, managerial responsibilities also differ with respect to the type of department or function. There are differences found for quality assurance, manufacturing, marketing, accounting and finance, and human resource management departments. For instance, manufacturing department managers will concentrate their efforts on products and services, controlling, and supervising. Marketing managers, in comparison, focus less on planning, coordinating, and consulting and more on customer relations and external contact. Managers in both accounting and human resource management departments rate high on long-range planning, but will spend less time on the organization's products and service offerings. Managers in accounting and finance are also concerned with controlling and with monitoring performance indicators, while human resource managers provide consulting expertise, coordination, and external contacts. The emphasis on and intensity of managerial activities varies considerably by the department the manager is assigned to.

At a personal level, knowing that the mix of conceptual, human, and technical skills changes over time and that different functional areas require different levels of specific management activities can serve at least two important functions. First, if you choose to become a manager, knowing that the mix of skills changes over time can help you avoid a common complaint that often young employees want to think and act like a CEO before they have mastered being a first-line supervisor. Second, knowing the different mix of management activities by functional area can facilitate your selection of an area or areas that best match your skills and interests.

In many firms managers are rotated through departments as they move up in the hierarchy. In this way they obtain a well-rounded perspective on the responsibilities of the various departments. In their day-to-day tasks they must emphasize the right activities for their departments and their managerial levels. Knowing what types of activity to emphasize is the core of the manager's job. In any event, we shall return to this issue when we address the nature of individual differences in the next chapter.

Concept Check

1. Describe and explain the different levels of management.
2. Describe and explain the three types of managerial skills and how they relate to each level of management.

References:

20. Mintzberg, H. (1990). "The Manager's Job: Folklore and Fact." *Harvard Business Review*, March–April 1990, p. 167.

21. Katz, Robert L., (1974). "Skills of an Effective Administrator." *Harvard Business Review*, September-October 1974.

2.4: The POLC Framework

Fig 2.4: "Framework for Disney." *Essays.io*

POLC Framework - The Functions of Management

The four major functions at the heart of management comprise the **POLC Framework** are planning, organizing, leading, and controlling. They serve as an effective framework for classifying the activities managers engage in as they attempt to achieve organizational goals.

Planning

- Vision
- Mission
- Strategy

Organizing

- Human Resources
- Management

Leadership

- Leadership Style
- Decision-Making

Controlling

- Financial controls
- Operational controls
- Communication

Assess Your Knowledge

1. Review the four functions of management.
2. Can you define and explain the four functions of management?

2.5: Case Study - Stanley Cup

Why a New Cup Caused a Frenzy at Target

A limited edition Stanley stainless steel tumbler \ caused mayhem at Target stores across the U.S., as buyers rush to get the cups.

Released Dec. 31, 2023 as part of Target's "Galentine's Collection," the Cosmo Pink and Target Red tumblers quickly sold out online and in stores.

The high demand—as seen in a recent video showing a crowd of people rushing to get the cups off a display shelf at Target - went viral on TikTok. The video has been watched millions of times, and the hashtag #StanleyTumbler accumulated over one billion views.

This cup is not to be confused with Stanley's Starbucks collaboration cup, sold in the Winter Pink color and also causing a frenzy at Target stores. PEOPLE reports that Starbucks will not be restocking the collaboration cups, which has sold out at some locations.

The Stanley brand has been around for over 100 years and the steel vacuum-insulated water bottles found success on TikTok, seeing a $676 million increase in revenue from 2019 to 2023, according to CNBC. The 40-oz Quencher tumblers, subject of the current craze, range in price from $45 to $55. The videos have captured the attention of a confused audience. "Am I missing something?" one person asked in the comments section. "Is it everyone's goal to collect as [many] colors as you can or? What happens with the other cups you have? Do they just retire every time you get a new cup?"

Stanley's 40-oz Quencher tumblers have existed since 2016 and were not immediate standouts. The brand was more known for its staple product: the classic green water bottle. The company released a redesigned Quencher bottle with different colors in 2022. A representative for Stanley told Today.com, "In 2022, there was a 275% increase in sales of the Quencher year over year, and U.S. sales of all sizes of the tumbler were up 751% in the year to date." Last year, the tumblers took off on TikTok with the rise of #watertok, when creators filmed themselves making flavored water concoctions in their large Stanley cups.

It's nearly impossible to scroll through the app now without seeing at least one video of a creator displaying their vast collection of water bottles or trying to sell a customized tumbler. There are limited edition bottles, like the Starbucks collab, but they're not the only brand to work with water bottle company. Olay joined forces with Stanley to drop a limited edition of "Blue Adventure" Quenchers and singer Lainey Wilson also collaborated with the brand.

VICE reported seeing a $29,000 Stanley cup on the re-sell website StockX, which doesn't seem to be available anymore, but there are plenty of listings for hundreds of dollars. In November, Stanley gained attention after a woman posted a video showing that her Stanley cup survived her car catching on fire—and still had ice in it. The video racked up over 92 million views and the company's president even offered to gift her a new car.

While the high demand for the cups suggests the Stanley fervor will not die down, Business Insider reports their popularity may be hitting capacity. The cups are "on their way out. This is peak, Stanley. There's no up from here," youth consumer trends analyst Casey Lewis told the publication. Part of the reason, according to Lewis, is the Stanley's unusual trend pattern: the tumblers began as a favorite among primarily millennial women before becoming popular with Gen Z. "Most trends start with cool youth, and then once they trickle down (to younger kids) and up (to adults), the cool youth move on," she said.

But #watertok will flow on. A new water bottle brand, Owala, is already making its way into the mainstream. The Stanley cup may have replaced the popularity of Hydroflask water bottles (even though some of us will never let go of ours). But everything has an end.

Source

Mendex, Moise II. "Why a New Cup is Causing a Frenzy at Target." *Time.com. January 5, 2024*

Watch

How Stanley Turned A 110-Year-Old Water Bottle Into A $750 Million Business

Stanley Cup President Responds to TikTok of Car Fire With Surviving Cup

2.6: O*NET Exploration - Management

O*NET Online: Career Exploration Tool

Connect to **O*NET Online** (opens in new window)to explore the job and career fields you are interested in. Learn about the characteristics of the job or field as well as the education requirements needed to to be employed. Ask yourself: are they a good fit for me? Keep track of the information by jotting down important details so you can refer to it later,

Identify

- the roles of managers within an organizations and the different careers in management

Explore

- work activities and tasks
- work environment and values
- technology skills used
- education or training requirements
- interests and abilities needed
- salary, wages, and employment trends

Jot Down

- job title and description or summary
- occupation specific information (activities, tasks, environment)
- education or experience requirements
- worker characteristics or profile (personality type, abilities, interests)
- Why or why not is this job/career a good fit for you?

CHAPTER OVERVIEW

3: The Role of Human Resources in an Organization

3.1: Guiding Questions | Learning Objectives | Key Terms

Fig 3.1: "What is HR? What Does HR Mean?" *Career Contacts*

Unit 3: Guiding Questions

- What are the types of roles within a Human Resources department of an organization or business?
- What are the staffing functions of HR (recruitment, selection, retention)?
- What are the training and development functions of HR?
- What are the types of compensation and benefits?

Unit 3: Learning Objectives

After completing Unit 3, I will be able to...

- define human resource management
- report on the functions of human resource management
- summarize the role HR management has in training and development
- differentiate between compensation and benefits
- identify different careers in Human Resources

Unit 3: Key Terms to Learn and Understand

- employees
- organization
- retention
- productivity
- compensation
- benefits
- laws
- job analysis
- labor relations
- employee training
- employee development
- direct pay
- bargaining
- unions

- performing
- tuition reimbursement

3.2: Introduction to Human Resources

Exhibit 8.1 (Credit: Ludovic Bertron /flickr / Attribution 2.0 Generic (CC BY 2.0))

Learning Outcomes

After reading this chapter, you should be able to answer these questions:

1. What is the human resource management process, and how are human resource needs determined?
2. How do firms recruit applicants?
3. How do firms select qualified applicants?
4. What types of training and development do organizations offer their employees?
5. How are performance appraisals used to evaluate employee performance?
6. What are the types of compensation and methods for paying workers?
7. What is a labor union and how is it organized, what is collective bargaining, and what are some of the key negotiation issues?
8. How are grievances between management and labor resolved, and what tactics are used to force a contract settlement?
9. What are the key laws and federal agencies affecting human resource management and labor relations?
10. What trends and issues are affecting human resource management and labor relations?

EXPLORING BUSINESS CAREERS

Andrea Herran, Human Resources Consultant

In college, Andrea Herran studied business administration and minored in psychology. Always interested in a business career, she initially took psychology simply because it was interesting. Little did she know how applicable that minor would become. As a human resources (HR) consultant, she often benefits from her psychology background. “Studying human behavior really gave me the background necessary to put myself in the position of others, to see things from their point of view, which has definitely been helpful in my career in human resources.”

Herran started out as an administrative assistant in the HR department of a hotel, and her career has run the gamut of human resources over the 25 years since she graduated from college. She has been an employment coordinator, focusing on employee recruitment and selection, and a personnel manager, where she learned the skills necessary to maintain and evaluate employees. As a training manager, she sharpened her talent for developing, coordinating, and even administering staff training. Eventually, she became the director of human resources for companies both in the United States and abroad. Indeed, beyond the United States, she has worked in Mexico, Argentina, and South Africa.

Andrea worked her way up in the corporate world, but entrepreneurship was more consistent with her desire for a fast-paced, changing environment, both in terms of what she does and who she works with, so she made the move to consulting. “Consulting allows me to draw upon all my human resources skills. I have opened five HR departments in my career, so I bring my full experience to bear on the challenges each company has."

Today, Andrea's passion is working with small businesses, entrepreneurs, managers, and owners as an advisor to "uncomplicate the people side of your business." As the principal of Focus HR Consulting, she advises firms how to set up human resource programs and ensure legal compliance. She also provides leadership coaching and training and mentors employees. She has worked in several industries, including hospitality (hotels and restaurants), advertising, professional services, logistics, technology, and manufacturing.

When Andrea was hired by Aquion Water Treatment Products, she was tasked with updating the company's HR policies and procedures. The company's performance reviews were very task-oriented versus behavior-oriented. Instead of determining whether a task was completed, behavior-oriented reviews seek to evaluate not only whether the person completed the task but also how he or she did so, especially examining the interactions involved in the task. Is an employee punctual at returning consumer request calls? How does he or she relate to customers? As a manager, does he or she express thoughts clearly? "By evaluating specific behaviors, you create an environment with clearly set qualifications for advancement and opportunities for targeted employee development. Without this, the *human* aspect of human resources can be overlooked."

Andrea has never looked back on her choice to become an entrepreneur, and she believes her varied employment history was a key to her success. "Anyone interested in this field should experience as many possibilities within human resources as possible. You leave school with the theory, but only through experience do you really get to see what the potential of such a career is."

Sources: "About Us," http://focushr.biz, accessed February 8, 2018; "Member Spotlight: Andrea Herran," http://www.centerforguiltfreesuccess.com, accessed February 8, 2018; Insureon blog, "5 HR Pros Reveal the Secret to Hiring the Right Employees the First Time," http://www.insureon.com, June 3, 2016.

This chapter looks at the role of human resources within an organization, from the general processes of developing and planning to the more specific tasks of employee evaluation and compensation.

Human resource management and labor relations involve acquisition, development, use, and maintenance of a human resource mix (people and positions) to achieve strategic organizational goals and objectives. Successful human resource management is based on a company's ability to attract and hire the best employees, equip them with the knowledge and skills they need to excel, compensate them fairly, and motivate them to reach their full potential and perform at high levels. Today's business environment presents numerous challenges to effectively managing employees:

- Technology continues to advance, which places great importance on knowledge workers, especially when demand outstrips the supply of high-talent individuals.
- Global business operations involve rapid data transfer and necessitate accelerated decision-making by executive and technical employees.
- The workforce is increasingly more diversified and multicultural, which places increased emphasis on communication and cultural understanding.
- Work, life, and family priorities are more difficult to balance as dual-worker families populate the labor force.
- Employment and labor laws continue to greatly influence employee recruitment and hiring, compensation decisions, and employee retention and turnover in both union and nonunion organizations.

Each day, human resource experts and front-line supervisors deal with these challenges while sharing responsibility for attracting and retaining skilled, motivated employees. Whether faced with a large or small human resources problem, supervisors need some understanding of difficult employee-relations issues, especially if there are legal implications.

In this chapter, you will learn about the elements of the human resource management process, including human resource planning and job analysis and design, employee recruitment and selection, training and development of employees, performance planning and evaluation, and compensation of the workforce. The chapter also describes labor unions and their representation of millions of American workers in construction, manufacturing, transportation, and service-based industries.

3.3: Achieving High Performance through Human Resources Management

1. What is the human resource management process, and how are human resource needs determined?

Human resource (HR) management is the process of hiring, developing, motivating, and evaluating employees to achieve organizational goals. The goals and strategies of the firm's business model form the basis for making human resource management decisions. HR practices and systems comprise the firm's human resource decision support system that is intended to make employees a key element for gaining competitive advantage. To this end, the HR management process contains the following sequenced activities:

- Job analysis and design
- Human resource planning and forecasting
- Employee recruitment
- Employee selection
- Training and development
- Performance planning and evaluation
- Compensation and benefits

The human resource management process shown in **Exhibit 8.3** encourages the development of high-performance employees. The process is sequential because employees can't be trained and paid until selected and placed in jobs, which follows recruitment, which is preceded by human resource planning and job analysis and design. Good HR practices used along this sequence foster performance improvement, knowledge and skill development, and loyal employees who desire to remain with the organization.

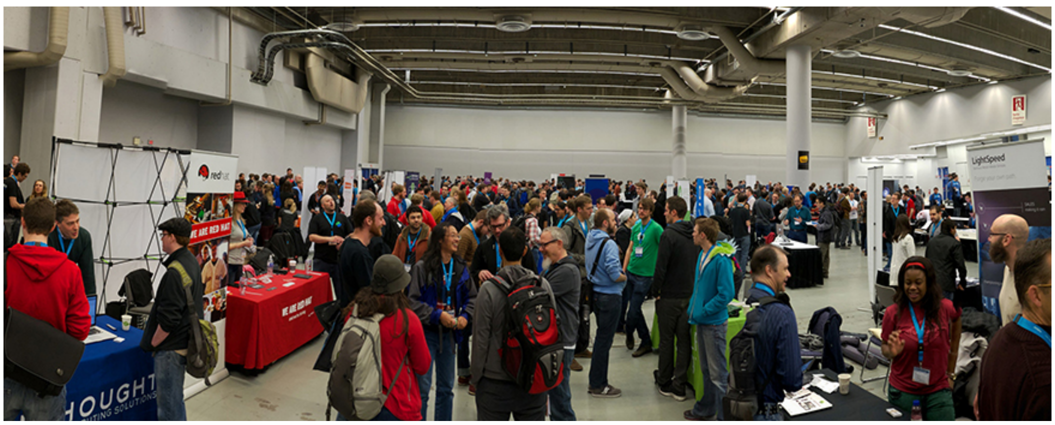


Exhibit 8.2 A job fair, career fair or career expo, are events in which employers, recruiters, and schools give information to potential employees and job seekers attend hoping to make a good impression to potential employers. They also interact with potential coworkers by speaking face-to-face, exchanging résumés, and asking questions in attempt to get a good feel on the work needed. Likewise, online job fairs are held, giving job seekers another way to get in contact with probable employers using the internet. *How do you plan on using events like this in seeking your job? How can utilize the courses that you are taking to illustrate your skills that you can discuss at job fairs*. (Credit: Taavi Burns/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

HR Planning and Job Analysis and Design

Two important, and somewhat parallel, aspects of the human resource management process are determining employee needs of the firm and the jobs to be filled. When Alcon Labs gained approval from the Food and Drug Administration for sales of a new contact lens disinfectant solution in its Opti-Free product line, it had to determine if additional sales representatives were needed and whether new sales positions with different knowledge and skill requirements should be established.[1] **Human resource planning** at Alcon means having the right number of people, with the right training, in the right jobs, to meet its sales goals for the new product. Once the need for sales representatives is determined, human resource specialists assess the skills of the firm's existing employees to see whether new people must be hired or current people can be trained. See **Exhibit 8.3** for a representation of the human resource management process.

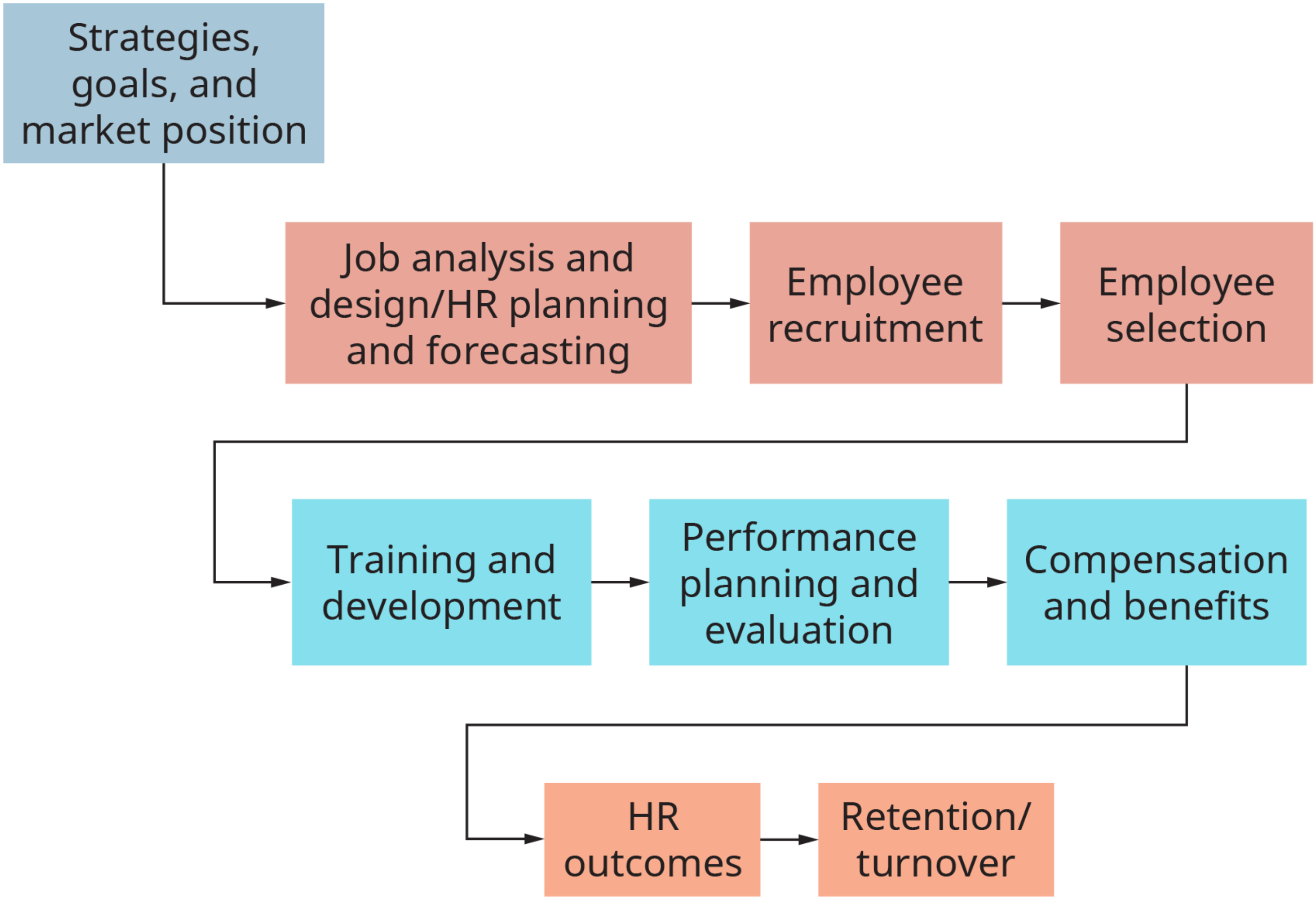


Exhibit 8.3 Human Resource Management Process (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

Human resource planners must know what skills different jobs require. Information about a specific job typically begins with a **job analysis**, which is a study of the tasks required to do a job well. This information is used to specify the essential skills, knowledge, and abilities required for the job. When Hubert Joly started as the CEO at Best Buy, the retailer was facing serious financial pressures. The threat of online competition from Amazon was real. Joly was also facing a staffing issue with a lot of turnover. He and his team instituted a plan to keep and promote staff as a core competency that would differentiate Best Buy from online retailers.[2] Also, a key HR responsibility is that jobs are examined to make any changes in job duty and task responsibilities. The tasks and responsibilities of a job are listed in a **job description**. The skills, knowledge, and abilities a person must have to fill a job are spelled out in a **job specification**. These two documents help human resource planners find the right people for specific jobs. A sample job description and specification is shown in **Table 8.1**.

HR Planning and Forecasting

Forecasting an organization's human resource needs, known as an HR *demand forecast*, is an essential aspect of HR planning. This process involves two forecasts: (1) determining the number of people needed by some future time (in one year, for example) and (2) estimating the number of people currently employed by the organization who will be available to fill various jobs at some future time; this is an *internal supply forecast*.

Job Description and Specification	
Position: College Recruiter Reports to: Vice President of Human	Location: Corporate Offices Resources Classification: Salaried/Exempt
Job Summary:	

Job Description and Specification	
Position: College Recruiter Reports to: Vice President of Human	Location: Corporate Offices Resources Classification: Salaried/Exempt
Member of HR corporate team. Interacts with managers and department heads to determine hiring needs for college graduates. Visits 20 to 30 college and university campuses each year to conduct preliminary interviews of graduating students in all academic disciplines. Following initial interviews, works with corporate staffing specialists to determine persons who will be interviewed a second time. Makes recommendations to hiring managers concerning best-qualified applicants.	
Job Duties and Responsibilities:	
Estimated time spent and importance:	
15%	Working with managers and department heads, determines college recruiting needs.
10%	Determines colleges and universities with degree programs appropriate to hiring needs to be visited.
15%	Performs college relations activities with numerous colleges and universities.
25%	Visits campuses to conduct interviews of graduating seniors.
15%	Develops applicant files and performs initial applicant evaluations.
10%	Assists staffing specialists and line managers in determining who to schedule for second interviews.
5%	Prepares annual college recruiting report containing information and data about campuses, number interviewed, number hired, and related information.
5%	Participates in tracking college graduates who are hired to aid in determining campuses that provide the most outstanding employees.
Job Specification (Qualifications):	
Bachelor’s degree in human resource management or a related field. Minimum of two years of work experience in HR or department that annually hires college graduates. Ability to perform in a team environment, especially with line managers and department heads. Very effective oral and written communication skills. Reasonably proficient in Excel, Word, and Windows computer environment and familiar with PeopleSoft software.	

Table8.1

The Advancement Planning process at Best Buy involved reducing the turnover that occurs in most retail environments. The company has achieved a second-place ranking, behind only Costco, and its general managers’ tenure at a store averages five years. The performance of managers at Best Buy is reviewed to identify people who can fill vacancies and be promoted, a process known as **succession planning**.[3] If Best Buy has a temporary shortage of sales professionals, at the holiday shopping season, for example, they can hire an experienced contractor or interim executive as a temporary or **contingent worker**, someone who wants to work but not on a permanent, continuous basis. **Exhibit 8.4** summarizes the process of planning and forecasting an organization’s personnel needs.

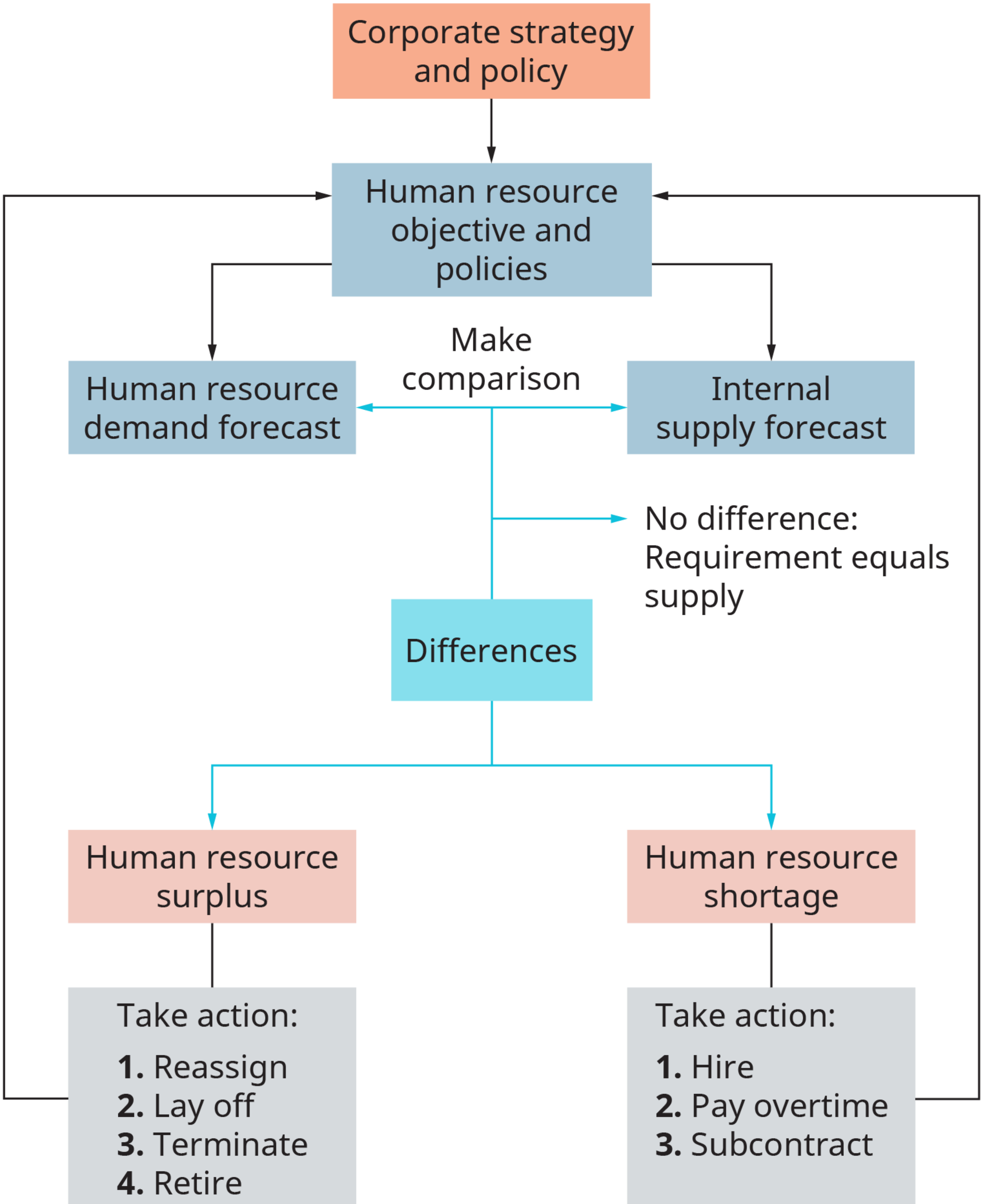


Exhibit 8.4 Human Resource Planning Process (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

CONCEPT CHECK

1. Define human resource management.
2. Distinguish between job analysis, job description, and the job specification.
3. Describe the human resource management process.

3.4: Summary of Human Resources

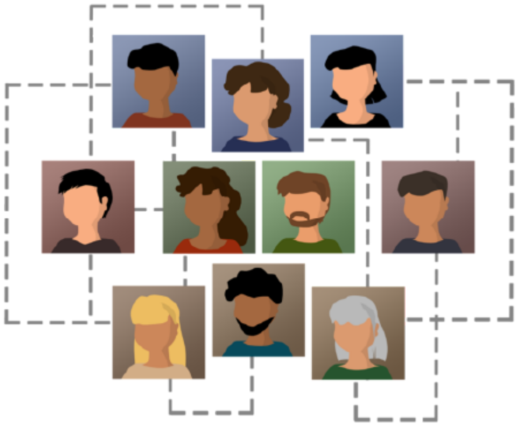


Image Source: Maky Orel, Pixabay

What is the human resource management process, and how are human resource needs determined?

The human resource management process consists of a sequence of activities that begins with the job analysis and HR planning; progresses to employee recruitment and selection; then focuses on employee training, performance appraisal, and compensation; and ends when the employee leaves the organization.

Creating a strategy for meeting human resource needs is called human resource planning, which begins with the job analysis. Job analysis is a process of studying a job to determine its tasks and duties for setting pay, determining employee job performance, specifying hiring requirements, and designing training programs. Information from the job analysis is used to prepare a job description, which lists the tasks and responsibilities of the job. A job specification describes the skills, knowledge, and abilities a person needs to fill the job described in the job description. By examining the human resource demand forecast and the internal supply forecast, human resource professionals can determine if the company faces a personnel surplus or shortage.

How do firms recruit applicants?

When a job vacancy occurs, most firms begin by trying to fill the job from within the ranks of their own employees, known as the internal labor market. If a suitable internal candidate is not available, the firm turns to the external labor market. Firms use local media to recruit nontechnical, unskilled, and non-supervisory workers. To locate highly trained recruits, employers use college recruiters, executive search firms, job fairs, and company websites to promote job openings. During the job search process, firms present an accurate and positive image of the company to those being recruited, called recruitment branding.

How do firms select qualified applicants?

The selection process helps identify the candidates in the applicant pool who possess the best qualifications for the open position. Typically, an applicant submits an application or résumé and then receives a short, structured interview. If an applicant makes it past the initial screening, he or she may be asked to take an aptitude, personality, or skills test. The next step is the selection interview, which is an in-depth discussion of the applicant's work experience, skills and abilities, education, and career interests. If the applicant passes the selection interview, most firms conduct background checks and talk with their references. Physical exams and drug testing may also be part of the selection process.

What types of training and development do organizations offer their employees?

Training and development programs are designed to increase employees' knowledge, skills, and abilities in order to foster job performance improvements. Formal training (usually classroom in nature and off-the-job) takes place shortly after being hired. Development programs prepare employees to assume positions of increasing authority and responsibility. Job rotation, executive education programs, mentoring, and special-project assignments are examples of employee development programs.

How are performance appraisals used to evaluate employee performance?

A performance appraisal compares an employee's actual performance with the expected performance. Performance appraisals serve several purposes, but are typically used to determine an employee's compensation, training needs, and advancement opportunities.

What are the types of compensation and methods for paying workers?

Direct pay is the hourly wage or monthly salary paid to an employee. In addition to the base wage or salary, direct pay may include bonuses and profit shares. Indirect pay consists of various benefits and services. Some benefits are required by law and include unemployment compensation, worker's compensation, and Social Security. Many employers also offer benefits not required by law. These include paid vacations and holidays, pensions, health and other insurance, employee wellness programs, and college tuition reimbursement.

What is a labor union and how is it organized, what is collective bargaining, and what are some of the key negotiation issues?

A labor union is an organization that represents workers in dealing with management over disputes involving wages, hours, and working conditions. A company is unionized through an organizing drive that begins either inside, with a small group of existing employees, or outside, with an established union that targets the employer. When the union gets signed authorization cards from 30 percent of the firm's employees, the NLRB conducts a union certification election. A majority vote is needed to certify the union as the exclusive bargaining agent. The union and the employer then begin collective bargaining and have one year in which to reach an agreement.

Collective bargaining is the process of negotiating, administering, and interpreting labor agreements. Both union and management negotiators prepare a bargaining proposal. The two sides meet and exchange demands and ideas. Bargaining consists of compromises and concessions that lead to a tentative agreement. Top management then approves or disapproves the agreement for the management team. Union members vote to either approve or reject the contract. The key issues included in a union contract are wage increases, fringe benefits, and job security.

How are grievances between management and labor resolved, and what tactics are used to force a contract settlement?

In most labor agreements, the grievance procedure consists of three or four steps. In the initial step, the employee files a grievance; this is an oral and/or written presentation to the supervisor and may involve a union steward as representative of the grievant. Steps two and three involve meetings of the employee, one or more union officials, the appropriate supervisor, and one or more management officials. If the grievance is not resolved at step three, either party (union or management) can request that an arbitrator, or neutral third party, hear and decide the grievance. The arbitrator reviews the grievance at a hearing and then makes the decision, which is presented in a document called the award.

When a union contract expires and a new agreement has not been reached, the union may impose economic pressure on the firm. These tactics may take the form of strikes, boycotts, picketing, or corporate campaigns. Similarly, employers may implement lockouts, hire replacements, or move production to another facility to place pressure on a union to accept a new contract.

What are the key laws and federal agencies affecting human resource management and labor relations?

A number of federal laws affect human resource management. Federal law prohibits discrimination based on age, race, gender, color, national origin, religion, or disability. The Americans with Disabilities Act bans discrimination against disabled workers and requires employers to change the work environment to accommodate the disabled. The Family and Medical Leave Act requires employers, with certain exceptions, to provide employees up to 12 weeks of unpaid leave a year. The leave can be for the birth or adoption of a child or due to serious illness of the worker or a family member.

Federal agencies that deal with human resource administration are the EEOC, OSHA, the Office of Federal Contract Compliance Programs (OFCCP), and the Wage and Hour Division of the Department of Labor. The EEOC and OFCCP are primary agencies for the enforcement of employment discrimination laws, OSHA enforces safety regulations, and the Wage and Hour Division enforces the minimum wage and related laws. Many companies employ affirmative action and safety officers to ensure compliance with anti-discrimination and workplace safety laws. The Wagner and Taft-Hartley Acts govern the union-management relationship, in part through the functions performed by the National Labor Relations Board. The law gives workers the right to form and join labor unions and obligates the employer to deal with the union fairly.

What trends and issues are affecting human resource management and labor relations?

Human resource managers recognize that diverse workforces create an environment that nurtures creative decision-making, effective problem-solving, more agility in adapting to change, and a strong competitive advantage. Therefore, firms are becoming committed to recruiting and hiring a diverse workforce. To maximize efficiency, many firms are outsourcing HR functions and using technology to reduce costs and improve efficiency. Firms are also striving to hire employees who possess qualities that match those of the corporate culture. Although labor unions have faced declining membership in the last several decades, enrollment of service workers into labor unions may increase as low-wage earners seek improved working conditions, pay, and health benefits.

Source

"Chapter 8: Summary of Learning Outcomes." *Introduction to Business* (OpenStax)

3.5: Benefits of Training and Development

Image Source: Gerd Altman, Pixabay

Why is Training and Development Important?

It could be argued – and rightly so – that employees are a company's greatest asset, and, therefore, investing in their training and development is key to sustaining business growth and success. This commitment makes sense when you consider the lengthy processes businesses carry out to recruit and hire qualified staff. Oftentimes, though, the emphasis on caring about the professional development of employees ends after they are hired.

What is Training and Development?

Studies show that organizations engaged inemployee development see increased sales and doubled profits double compared to organizations not committed to employee engagement. Dedicated training and development fosters employee engagement, and a more efficient, competitive, and engaged workforce is critical to your company's financial performance. Furthermore, 93% of employees will stay longer when a company invests in career development. Training and development helps companies gain and retain top talent, increase job satisfaction and morale, improve productivity and earn more profit. Additionally, businesses that have actively interested and dedicated employees see 41 percent lower absenteeism rates, and 17 percent higher productivity.

Who Should be Interested in Training and Development?

Achieving these impressive and important benchmarks starts with top executives, and the strength of a business's Human Resources professionals. HR directors, and managers with strong leadership skills are increasingly being called upon to help frame strategic planning, which almost exclusively involves robust employee training and professional development initiatives. To leverage this growing trend, HR workers are choosing to advance their careers by pursuing a human resources bachelor's and graduate degrees.

What are the Benefits of Training and Development?

HR teams in implementing and executing policies that promote employee responsibility, production, satisfaction and retention, as well as programs that engage employees through consistent training and development. They will know the benefits of training and development – the top 5 of which are outlined below – in helping their companies reach their strategic goals.

1. Retains Employees

Retention is a major challenge for employers but retaining strong workers can be achieved through career development. In fact, training and development has become so centralized within businesses that it is often used as a competitive advantage when hiring. Offering career development initiatives helps employees establish a sense of value within the company and fosters loyalty, ultimately resulting in increased staff retention and a 59% lower staff turnover rate.

2. Develops Future Leaders

Targeting employees with the skills for future leadership can be vital in establishing a business for growth and evolution. Leadership talent can be acquired through new hires, or HR professionals can select current employees as managerial candidates. According to the Society for Human Resources Management (SHRM), having professional development programs ensures an organization is focused on future business goals by preparing promotable talent.

3. Empowers Employees

Leaders who feel empowered within the workplace will be more effective at influencing employees and gaining their trust. Consequently, those employees will feel a greater sense of autonomy, value, and confidence within their work. SHRM defines employee autonomy as the extent to which an employee feels independent and can makes their own decisions about the work they do.

4. Boosts Workplace Engagement

Finding ways to bolster the consistent engagement of employees can diminish boredom in the workplace, which left unchecked can create feelings of dissatisfaction and negative working habits. Regular training and development initiatives can prevent workplace idleness and in turn will help businesses establish regular reevaluation of their employees, skills and processes. Furthermore, it will influence company culture by instilling an emphasis on planning and can prompt company analysis and planning as it requires employers to review existing talent and evaluate growth and development opportunities internally, rather than via recruitment. In fact, Forbes measured empowerment and employee engagement in data from over 7,000 employees and found that employees who felt a low level of empowerment were rated with engagement in the low rankings of the 24th percentile, compared to those who felt a high level of empowerment and were in the 79th percentile.

5. Builds Workplace Relationships

Finally, providing opportunities for employees to explore new topics, refine their skills and expand their knowledge can help your team members bond with each other. During these training and development sessions, they will tackle new challenges together. They can also lean on one another for various learning opportunities by collaborating with colleagues who have specific areas of expertise. Research has shown that peer collaboration is actually their preferred method of learning. Learning from each other's strengths not only leads to a more well-rounded workforce, but those bonds can also improve retention and engagement. With these five benefits in mind, along with others not covered here, it's easy to discern why employee training and development matters in the workplace. If this theory backed by research sparks interest in you as a business professional, then perhaps a career in human resources is right for you?

Source

"5 Benefits of Training and Development?" *Ottawa University Blog*

3.6: Complete Guide to Compensation and Benefits

Image Source: Mohammed Hassan, Pixabay

People are a vital asset to an organization, and compensation and benefits are essential pillars of a team member's satisfaction in the workplace. A rewarding compensation and benefits plan can attract loyal, motivated and engaged candidates and may reduce the turnover rate of people in a company. Understanding compensation and benefits can help you manage staff retention and advance your career as a human resources manager . In this article, we explain what compensation and benefits are, discuss their differences and importance and list essential components of non-financial compensation that provide organizations with a competitive advantage.

What are compensation and benefits?

Compensation and benefits are crucial functions of human resource management. A rewarding compensation and benefits plan attracts high-performing candidates and helps foster staff motivation, retention and a positive workplace experience. Compensation is the financial value that a team member receives in exchange for their services. This monetary value can include wages, salary, commissions and bonuses. Benefits are non-monetary, additional perks or rewards that a company provides for a team member. Certain benefits may have a financial value, even though a team member receives no cash. Examples of benefits with a monetary value include equity, stock options, health insurance and retirement savings plans . Non-monetary benefits may be a flexible working schedule, paid time off or learning and development opportunities.

What are the differences between compensation and benefits?

Compensation and benefits are both parts of the employment package that an organization offers a candidate. Companies often use compensation as a collective term to describe a remuneration package, but compensation is cash remuneration paid to a team member. Benefits are non-financial rewards given to team members besides their cash payment for the services they offer to the organization. The main difference between the two is whether they're financial or non-financial forms of remuneration. Human resource managers use compensation to attract talented candidates and improve staff retention . They use benefits to motivate team members, encourage engagement and improve performance in the workplace. Each team member and potential candidate has different needs, and employers can motivate some people with financial rewards and others with non-financial rewards. In addition, compensation is a monetary value and is subject to taxation. In contrast, some benefits are tax-free, such as meals provided for the convenience of a team member. Some benefits also have a portion that's exempt from taxation, such as transportation benefits.

Why are compensation and benefits important?

Excellent compensation and benefits packages can differentiate a company from other employers in the marketplace. A business hires people to achieve its organizational goals, and candidates can join companies to earn money and advance their careers. Companies that develop a competitive and well-designed compensation and benefits strategy may enjoy these benefits:

- #### Attracting high-performance candidates and improving retention

Companies must continually recruit high-performance candidates and manage the retention of team members for business continuity. Often, talented people know how to highlight their value and negotiate for the best compensation and benefits options. Compensation specialists consider a combination of compensation and benefits to recruit high-performance candidates and reduce staff turnover. A desirable mix of monetary and nonmonetary options can make an organization more competitive in the marketplace, attract talent and reduce recruitment costs.

- ### Motivated team members

When compensation is below the average in an industry, employers may find it challenging to keep team members highly motivated. Fair compensation boosts morale and increases workplace satisfaction, which motivates people to deliver their best efforts, reduces absenteeism and improves staff retention. Besides direct compensation, benefits, such as a workplace gym, prepaid meals, additional paid vacation time or a gift card for achieving a goal, can motivate team members to perform their tasks.

- ### Increased loyalty and engagement

When an organization values and appreciates team members, it fosters a belief in the company's overall mission, helps improve staff retention and increases loyalty and engagement. Examples of benefits that make people feel valued and understood in the workplace include stock options, flexible schedules, personal days, child care, gym memberships and product discounts. The benefit of a service recognition program is that it inspires loyalty and engagement and can improve staff retention.

- ### Improved productivity

Team members who feel undervalued or under-compensated might spend more time on personal projects or offer a minimum service in proportion to their compensation. In contrast, a successful compensation and benefits plan rewards team members for their efforts and can inspire increased efficiency and productivity in the workplace. Performance-based reviews, sales incentives and team rewards can motivate team members and improve productivity.

- ### Enhanced workplace experience

Although competitive compensation is essential, benefits such as health and wellness programs, paid time off, rewards and incentives can enhance the workplace experience and reduce absenteeism. For instance, offering insurance options benefits team members and can allow them to focus on workplace tasks. When team members are excited about coming to the workplace, they might provide better customer service and talk positively about the organization to their friends and family.

Components of non-financial compensation

Many organizations understand the benefit of competitive financial compensation. Still, a well-structured combination of compensation and benefits can optimize engagement, productivity, absenteeism and financial resources and help meet organizational goals. Benefits that can motivate team members and make a company more competitive include:

Benefits with a monetary value

Certain benefits have a monetary value, but team members don't receive compensation in cash. Examples include:

- **Disability insurance**
- **Dental and vision insurance**
- **Health insurance**
- **Life insurance**
- **Paid gym membership**
- **Retirement benefits**
- **Stock options**
- **Student loan repayments**
- **Worker's compensation plan**

Benefits with no monetary value

Some benefits with no monetary value include:

- **Family leave:**
  - this benefit includes extended leave allowance for bereavement, maternity and paternity leave.
- **Flexible working schedule:**
  - AN organization can offer flexible work hours and the option to work remotely for a few days a week as long as team members complete their assignments on time.
- **Paid time off:**
  - depending on the length of service, organizations may allow team members to schedule paid days off for some personal time.

- **Training and development:**
  - Employers develop training programs to enable team members to learn specific skills or gain knowledge to improve their performance.
- **Use of company equipment**:
  - Some companies provide access to computer equipment, cellphones and tablets for the duration of a candidate's service contract.

Source

Bester, Vanessa. "What Are Compensation and Benefits? (A Complete Guide)" *Indeed.com.* February 16, 2023

3.7: Functions of Human Resources Management

Fig. 3.7: Functions of Human Resources Management

Functions of Human Resources Management

Strategy & Planning

- Looking ahead to see what jobs will be needed in the next year or two, and how those jobs will be filled.
  - Is a new skill needed ,or is the skill readily available?

EEO - Employment Law and Compliance

- Making sure the company operating in a legal manner. This includes
  - avoiding discriminatory practices (think hiring, firing, promotions)
  - correct retention of documents, etc.

Talent Acquisition

- What is the plan for company's workforce?
  - Are we able to recruit and retain qualified employees?
  - Does the company have a brand people respect?

Talent Management

- Do we have good training and development programs in place?
- Are new employees able to learn their jobs quickly?

Total Rewards

- Are we providing competitive pay?
- Are the benefits attractive enough to recruit and retain employees?

Risk Management & Worker Protection

- Is the company operating in a safe manner?
- Is there a disaster recovery plan in place?

Employee and Labor Relations

- Is there a formal process in place with clear rules and expectations for employees to follow?
- Are managers creating a welcoming, trusting, and equitable environment for employees?

3.8: O'Net Exploration - Human Resources

O*NET Online: Career Exploration Tool

Connect to **O*NET Online** (opens in new window) to explore the job and career fields you are interested in. Learn about the characteristics of the job or field as well as the education requirements needed to to be employed. Are they a good fit for you?

Characterize

- the different roles in the human resources department within an organization

Explore

- work activities and tasks
- work environment and values
- technology skills used
- education or training requirements
- interests and abilities needed
- salary, wages, and employment trends

Jot down

- job title and description or summary
- occupation specific information (activities, tasks, environment)
- education or experience requirements
- worker characteristics or profile(personality type, abilities, interests
- why or why not is this job/career a good fit for you

CHAPTER OVERVIEW

4: The Role of Marketing and Sales in an Organization

4.1: Guiding Questions | Learning Objectives

Image Source: Wikimedia Commons

Unit 4: Guiding Questions

- What is a target market?
- What is marketing mix (product, price, place, and promotion)?
- What are the roles within a marketing department of an organization or business?
- What are the roles within the sales department of an organization or business?

Unit 4: Learning Objectives

After completing Unit 4, I will be able to ...

- define marketing and sales, as well as careers in each
- describe the four P's (product, promotion, pricing, and place) of marketing
- identify several marketing research resources
- identify a target market

4.2: Marketing and the Marketing Process

Learning Objectives

By the end of this section, you will be able to:

- Define and describe marketing.
- Describe the benefits of marketing to the organization, its interested parties, and society.
- Explain the marketing process.

Marketing Defined

When you ask a group of people, "What's marketing?" most people will answer "advertising" or "selling." It's true that both of these functions are part of marketing, but marketing is also so much more. The American Marketing Association (AMA) defines marketing as "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."[6] That's kind of a mouthful, so let's see if we can simplify it a bit.

At its most basic level, marketing is made up of every process involved in moving a product or service from the organization to the consumer. It includes discerning the needs of customers, developing products or services to meet those needs, identifying who is likely to purchase the products or services, promoting them, and moving them through the appropriate distribution channels to reach those customers. Marketing, quite simply, is about understanding what your customers want and using that understanding to drive the business.

Marketing can also be defined as the set of activities involved in identifying and anticipating customer needs and then attempting to satisfy those needs profitably.[7] But what does that really mean? Let's break down that definition:

- *Identifying customer needs*. This is typically where marketing research comes in. Methods of marketing research will be covered in a later chapter, but market research helps a company develop a detailed picture of its customers, including a clear understanding of their wants and needs.
- *Anticipating customer needs*. After analyzing the data collected, marketers can predict how products might be changed, adapted, or updated.
- *Satisfying customer needs*. If marketers have done their homework correctly and clearly understand their customers' needs, consumers will be pleased with their product purchase and will be more likely to make additional purchases.
- *Profitably*. Profitability is a relatively simple term; it's when a company's revenue is greater than its expenses. In terms of marketing, the road to profitability means adding value to a product so that the price customers pay is greater than the cost of making the product.[8]

Marketing in Practice: Reconciling Segmentation and Diversity

We live in a multicultural world where diversity, equity, inclusion, and belonging (DEIB) is no longer the "right" thing to do; rather, it's imperative. This is particularly true in marketing, because as the consumer population diversifies, brands have to authentically reflect a wide range of backgrounds and life experiences in order to effectively connect with consumers. Therefore, marketers must increasingly respect individual preferences, celebrate differences, and promote customization of products and services to meet customers' needs, wants, and preferences.

At the same time, to profitably produce and sell a viable product or service, marketers must identify potential customer groups and types with certain characteristics in common—i.e., market segmentation. Segmentation requires assigning individuals to predefined categories with predictable behaviors, based on standardized assumptions.

How does segmentation differ from stereotyping? How can segmentation support diversity?

Read the following articles to further explore these nuances:

- Chron: "Difference Between Stereotyping & Market Segmentation"
- Retail Dive: "Segmentation is dead!"
- Spectrem Group Blog: "Why Segmentation Is OK in Market Research Not Life"

Keep these questions in mind as you explore Unit 2 of this book, where you will learn more about Market Segmentation, Targeting, and Positioning before exploring the considerations of Marketing in a Diverse Marketplace.

How Marketing Benefits the Organization, Its Interested Parties, and Society

Before we go on, let's consider all the people and groups that an organization needs to consider and serve. Interested parties are those persons or entities that have an interest in the success or failure of a company. These parties can be categorized into two types: internal and external, as shown in Figure 1.2. You may see these people and groups referred to as "stakeholders" in business writing and other media.

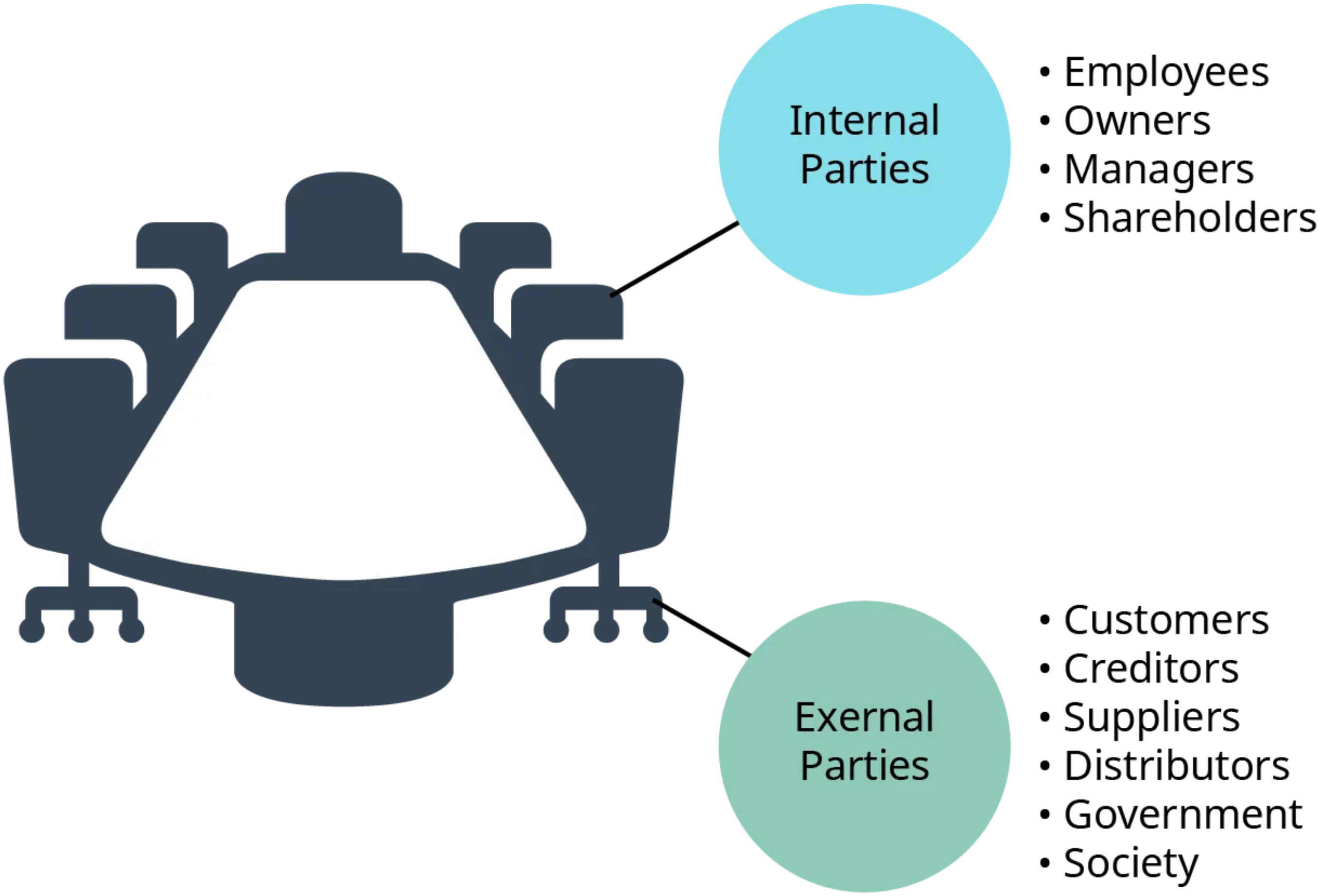


Figure 1.2 Types of Interested Parties (CC BY 4.0; Rice University & OpenStax)

Internal interested parties are entities that reside within the organization and that affect—or are affected by—the actions of the company. These entities include employees, owners, managers, and investors (shareholders). When we think about marketing, marketers often tend to look outward. They build strategies to engage customers and show them what the company has to offer.

You might think that marketing would be primarily directed toward those outside the company, like customers, but marketing is also directed toward internal groups. Internal marketing involves promoting the objectives, products, and services of a company to its internal constituents—particularly employees.[9]

Think about a recent interaction you have had with a business employee. It could be the server who took your order at lunch or the sales associate at a big box store who showed you the features of the new laptop you were looking to purchase. Which interactions left you with a positive experience? Chances are that your evaluation of the experience is based on the interaction you had with the server or sales associate. That's a function and benefit of good internal marketing, employees who are motivated and empowered to deliver a satisfying customer experience.

External interested parties include those outside the company, such as customers, creditors, suppliers, distributors, and even society at large. External groups don't have a direct say in the company's decision-making process. However they are vital to the success of the company because companies can only succeed with the support of others.

How does marketing benefit external parties? First, consider what marketing does for consumers. It draws out their needs, creates new demand, locates untapped opportunities, and determines the possibilities of selling new products. Second, marketing creates form, time, place, and possession utilities for the company's goods and services. Utility refers to a product's usefulness to customers so that they are convinced enough to make a purchase. In other words, when you hear "utility" in marketing, think "usefulness to customers."

Marketing creates several different types of utility:

- Form utility. Form utility refers to how well an organization can increase the value of its product in the customer's eyes by making changes and altering its physical appearance.[10] For example, when you want a donut or a pastry, you don't want to buy the ingredients to make it; you want a donut in its final form so you can eat it. That's where the bakery and form utility come into play. The bakery combines flour, sugar, eggs, and other ingredients to make the cakes, donuts, and pastries that you purchase.
- Time utility. Marketing creates time utility when it makes products and services available to customers so that they can buy it when it is most convenient for them. Consider how many stores are open evenings, weekends, or even 24/7 to make it convenient for customers to shop there!
- Place utility. Marketing creates place utility when it makes goods or services physically available, convenient, and accessible to customers. Consider the ease a company like Uber Eats adds to your life when you're craving tacos in the middle of the night and you don't feel like getting dressed and driving to go get them. You can have your food delivered to you!
- Possession utility. Marketers facilitate possession utility by ensuring that a product is relatively easy to acquire. For example, many automobile manufacturers offer low (or sometimes no) interest rates on car loans to make it easy for you to walk out the door with a new set of car keys. Possession utility also encompasses the pride or satisfaction you get from owning a new product, such as a great-fitting pair of running shoes or a smartphone with all of the features you've been wanting.

Marketing's primary benefit to society is that it drives the consumer economy. Marketing leads to increased sales and revenue for a business which enables them to expand operations, create more internal jobs and external jobs for partners like suppliers. Marketing also contributes tax revenue to local, state, and federal governments, ultimately leading to overall economic growth.

The Marketing Process Defined

The marketing process refers to the series of steps that assist businesses in planning, analyzing, implementing, and adjusting their marketing strategy. Do an internet search for "steps in the marketing process," and you'll immediately see that some websites outline a 10-step process, whereas others propose a 4-step or 6-step process. For our purposes, we're going to use a 5-step process.

Steps in the Marketing Process

The 5-step process (see Figure 1.3) involves understanding the marketplace and customers, developing a marketing strategy, delivering value, growing customer relations, and capturing value from customers.[11]

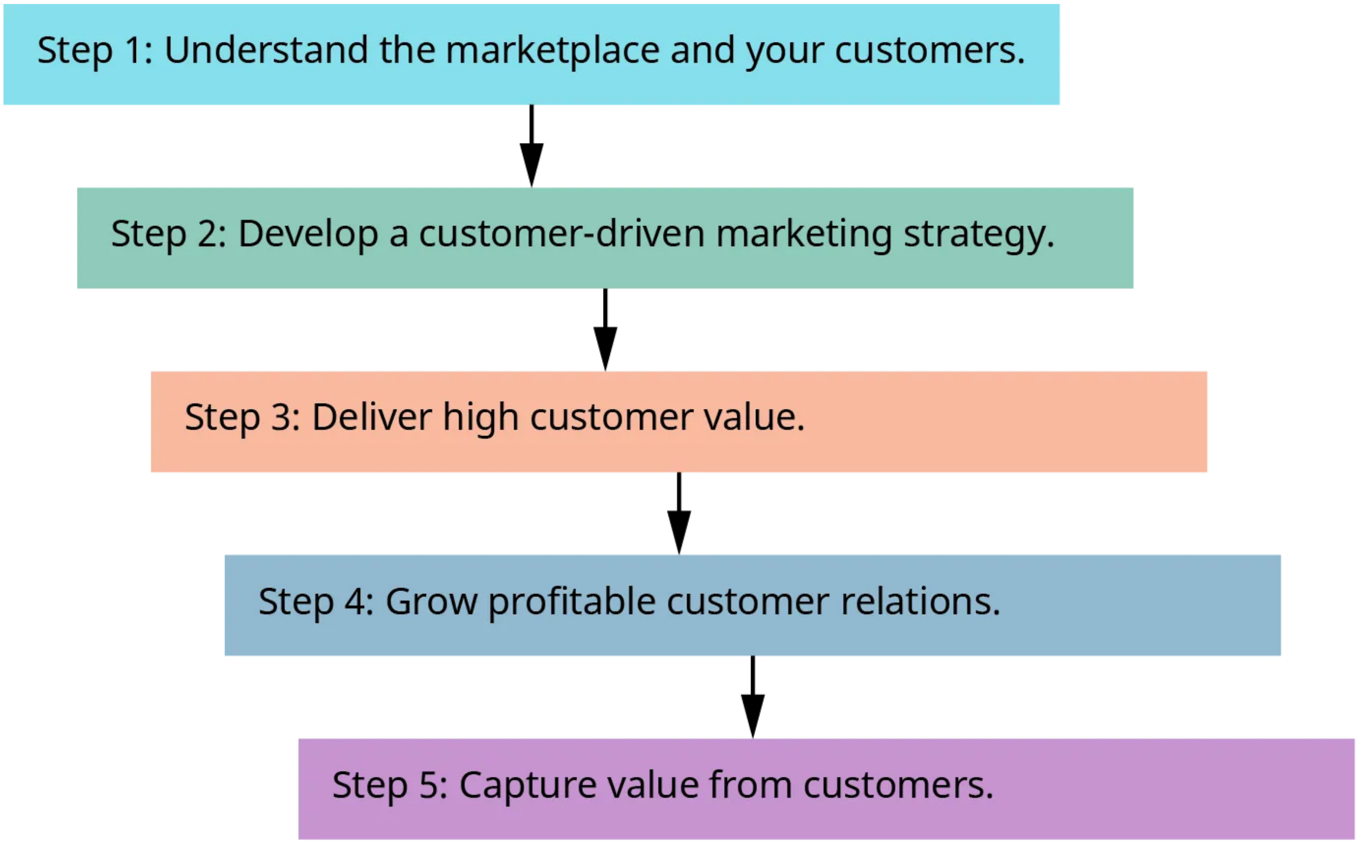


Figure 1.3 Steps in the Marketing Process (CC BY 4.0; Rice University & OpenStax)

Step 1: Understand Both the Marketplace and Customers

Before you can start the marketing process, you need to have a good idea of what your marketplace looks like. This means answering some basic questions about your customers, like who they are, their income and purchasing power, and how much they're likely to spend (particularly on your products or services). If you decide to sell at lower prices in order to attain higher unit sales volume, your marketing strategy would look very different than if you decided to sell fewer products at a higher price.

Another way to approach this is to create separate brands and compete in both arenas. Consider Volkswagen. You might immediately think of the VW Beetle or the Jetta, but the company's brand portfolio extends beyond VW passenger cars and SUVs. It's also the parent company for Audi, Bentley, Lamborghini, Porsche, and others, and these vehicles sell at very different price points than VW passenger cars.[12]

Step 2: Develop a Customer-Driven Marketing Strategy

Marketing strategy refers to a business's overall "game plan" to focus its limited resources in order to reach prospective customers and turn them into paying customers, hopefully for the long run.

It's said that there are two basic types of marketing strategy: a product-driven, "build-it-and-they-will-come" strategy and a customer-driven strategy, in which you analyze prospective consumers and then—and only then—create something that they want or need. We're going to focus on the latter strategy. What happens in a customer-driven marketing strategy is that the company shifts the focus from the product or service itself to its users. Customers' needs are the central focus and the point of beginning, not an afterthought. Your primary goal in a customer-driven marketing strategy is to determine what users want and/or need and then satisfy those users. Instead of being product-centric, it's about being customer-centric and developing a mutually beneficial relationship with customers.[13]

In a nutshell, it's about establishing a connection and a relationship. It's about understanding who your customers are, what their needs and wants are, and how you can best meet those needs and wants. It's about knowing your target market better than your competitors do and creating a strong value proposition for those users—a promise of value that communicates the benefits of your company's products or services. In short, it's what makes your product or service desirable to potential customers, helps them understand why they should buy it, how your company's product or service differs from those of its competitors, and how your offerings are superior to similar offerings from your competitors. [14]

Step 3: Deliver High Customer Value

Customers have myriad buying options and alternatives today. Given that, how can a company attract and—even more importantly—retain its customers? The answer is relatively simple: you give them value for their money. By definition, customer value is the ratio between the perceived benefits and costs incurred by the customer in acquiring your products or services.

The mathematical formula is simple:

$$\text{Value} = \frac{\text{Benefits}}{\text{Price}}$$
$$\left(\text{V} = \text{B}/\text{P}\right)$$

But "value" from the customer's perspective is a complex term, because we're really considering four different values types:

- Functional value: what the product "does" for the customer in terms of solving a particular want or need
- Monetary value: what the product actually costs relative to its perceived worth
- Social value: how much owning the product allows the customer to connect with others
- Psychological value: how much that product allows the customer to "feel better"[15]

Value is increased by boosting the benefits (in the form of product, place, or promotion) or minimizing the price.

Step 4: Grow Profitable Customer Relations

The bottom line is that profitable customer relationships are the "secret sauce" of any business. This step in the marketing process is where marketers acquire, keep, and grow customer relationships. Successful marketers know that acquiring customers is one of the hardest (not to mention one of the most expensive) elements of marketing. However, when you know clearly who those potential customers are, you can more effectively determine how to reach them, thus maximizing your marketing dollars.

It isn't enough to have a one-and-done sale. You want repeat buyers, so marketers need to remind customers about the company's products and/or services and how those products and services have met their needs and improved their lives so they make repeat purchases. Marketers need to consider how to reach customers about their offerings and make it easy and convenient for those customers to make continued purchases.

When customers have a positive relationship with a company or its products or services, they're more likely to become repeat buyers. Satisfied customers are also more likely to be interested in buying additional products or services from your company, and they tend to recommend products to others, further reducing the company's costs of getting new customers.[16]

Step 5: Capture Customer Value in the Form of Profits

The goal of successful customer relationship management (CRM) is creating high customer equity—the potential profits a company earns from its current and potential customers. It's a relatively simple concept: increasing customer loyalty results in higher customer equity.

Increasing customer equity is the goal of marketers because it's a bellwether for financial success. Think about it in simple terms: the higher a company's customer equity, the more profit the company generates, and the more valuable that company (and its products or services) becomes on the market.[17]

Careers In Marketing: Marketing Jobs

In every chapter of this book, you'll find this Careers in Marketing section. It's meant to outline various jobs so you can be well informed of all the things marketers do. These sections will outline various job roles, what you do day-to-day, qualifications needed, and sometimes even salary information.

If you've decided you want a job in marketing, it's important to know what kinds of jobs exist and what's expected in each role. Google and YouTube searches will bring you all kinds of information. It's recommended that you check out the insights from people in these roles and maybe even connect with them to ask them questions. Please do your homework, and determine what you like to do with your day, what you're good at, and how to build a network to find the right job for you.

Here are a handful of resources to get your thinking started:

- HubSpot: "How to Start Your Marketing Career When You Know Nothing About Marketing"
- Setup: "The Marketing Career Path: From Entry-Level to Chief Marketing Officer"
- Coursera: "Your Guide to Landing an Entry-Level Marketing Job"
- Skillshare: "12 Entry-Level Marketing Jobs You Can Pursue Right Now"
- Indeed: "Entry Level Marketing Salary in the United States"

Whatever job role you choose, marketing is a creative, interesting, and at times exciting role where you can make a real impact on people's lives. Enjoy!

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Coca-Cola's mission is to refresh the world, and to that end, it has ensured that you can buy a Coke product at numerous locations—vending machines, convenience stores, restaurant fountains, stadiums, etc. What type of utility has marketing created through this process?

a. Form utility
b. Time utility
c. Place utility
d. Possession utility

2.

Which of the following provides the most complete definition of marketing?

a. Marketing creates value.
b. Marketing is made up of every process involved in moving a product or service from your organization to the consumer.
c. Marketing includes distribution decisions.
d. Marketing is about building relationships.

3.

Which of the following is not an external interested party?

a. Employees
b. Customers
c. Suppliers
d. Society

4.

The total potential profits a company earns from its current and potential customers is known as ________.

a. customer equity
b. the value proposition
c. customer value
d. the marketing process

5.

At which step in the marketing process would the lifetime values to a company’s customers be considered?

a. Developing a customer-driven marketing strategy
b. Delivering high customer value
c. Growing profitable customer relations
d. Capturing value from customers

4.3: Marketing Research and Big Data

Learning Objectives

By the end of this section, you will be able to:

- Define marketing research.
- Explain how marketing information provides an understanding of the customer and the marketplace.
- Explain the role of big data and the marketing information system.

What Is Marketing Research?

Oftentimes people think of marketing as the process of communicating with a target market—sharing messages, products, and value with customers. However, marketers know that understanding customers, learning about their wants and needs, and developing a relationship with them is essential for success. Marketing research allows marketers to listen and assess the needs of the market, to understand what's missing and how to reduce those gaps from their customers, target markets, and prospective clients. Managers need marketing information in order to make data-driven decisions rather than make assumptions about consumers. In this chapter we're going to investigate the importance of marketing research, some strategies employed in the field, and how to complete the marketing research process.

Marketing research is the work to gather information and data about customers and markets. Let's look at the definition, why it's important, and the influx of big data.

Marketing Research Defined

According to the American Marketing Association (AMA), marketing research "is the function that links the consumer, customer, and public to the marketer through information."[2] Marketing research presents information gained through various sources as a resource for managers to make data-driven business decisions. Additionally, the AMA states that "marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications."[3]

The Importance of Marketing Information

Marketing information, also known as business intelligence, competitive intelligence, or marketing intelligence, is information about the market that helps to identify opportunities in the market. This information helps to determine a company's strengths and weaknesses while also evaluating the external environment's opportunities and threats. Ideas generated through analysis of marketing information support business decision-making from a long-term strategic approach to smaller issues at a tactical level.

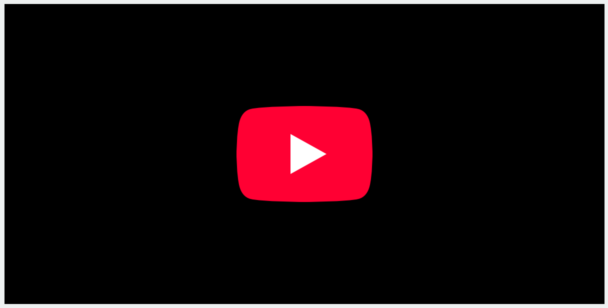
Marketing information is essential for a company or organization to stay competitive and also meet the customer's needs. As referenced above, LEGO used marketing research to gather information about how children use its product but also how parents felt about opportunities for their children. Universities and colleges use information gathered through marketing research to build next year's recruitment materials by asking students their perceptions of the previous year's items. Additionally, a fast-food restaurant might conduct an analysis of the time of day each of its items are more likely to be purchased. Obvious to most, coffee would probably be an item more likely ordered earlier in the day. Other items might not be as evident but could require different preparation times. By accounting for when each of these items is most likely to be ordered, the restaurant can plan its inventory and schedule of employees more efficiently.

Big Data and the Marketing Information System (MIS)

The amount of data currently available is not only vast but is growing at an exponential level every day, which describes the concept of big data. Big data is the countless number of records that continues in an increasing capacity and at a faster rate. Because of the constantly changing landscape of data, it's difficult for companies to develop an approach for analyzing it. Big data is often described through the use of the three Vs: volume, velocity, and variety. The amount of data, or volume, is more than we have ever witnessed. Additionally, it is growing at a fast rate; the velocity is also ever increasing. We expect that the velocity of data will continue to surge exponentially as each day more users are contributing to the data available. Finally, there is the variety of data that is part of this enormous data set—because each user is contributing to the cache of data available, the diversity of data is just as unique as its creators.

Link to Learning: What Is Big Data?

Big data is massive amounts of data. But what does that mean? Think of all the data a smartphone generates with texts, searches, emails, photos, etc. Now consider how many smartphone users there are in the world. Watch this video and learn how much data is generated on the internet each day and how it can be classified through the three Vs concept.



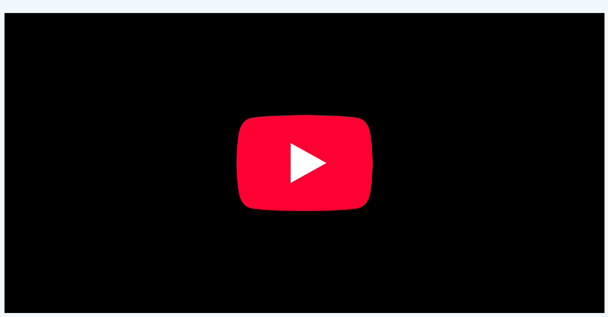
“Big data has become one of the most valuable assets held by enterprises, and virtually every large organization is making investments in big data initiatives.”[4] This statement was based on a 2021 NewVantage Partners survey of senior C-level executives at Fortune 1000 companies regarding their perceptions of big data and their utilization of its resources. NewVantage Partners learned that many companies are already pursuing this data, with 96 percent reporting that their companies have already had success using big data and artificial intelligence programs. Additionally, 99 percent of the executives surveyed are pursuing either new or existing big data programs. Why are companies so keen to invest in this source? It is estimated that the world creates approximately 2.5 quintillion bytes of data daily. This vast accumulation of data can be collected through various methods, such as point-of-sale databases, connected devices through the Internet of Things (IoT), third-party marketing research firms, social media, location data from mobile devices, or surveys.[5] Tapping into the resource generators is helpful for companies to understand their customers, employees, or others.

So, who are these data generators? They are everyone, like you and your friends, who post content on social media, engage with web content through streaming services, and share stories through web applications. In addition, businesses are contributing to the massive amount of content available. Extra data (volume), at a faster rate (velocity), and from a more widely diverse set of people (variety) explain why it is called “big” data.[6] So how do businesses and individuals capitalize on this vast data world?

In order to be able to utilize and make the most of the availability of business data, businesses use a marketing information system to collect, analyze, and report interesting findings from internal and external data of the company. This system is an ever-changing database of content that is used to support the company or organization’s marketing efforts. The marketing information system is the collection of data and requires actions taken by marketers to utilize the data saved.

Careers In Marketing: Market Research Analysts

Market research analysts are needed in numerous industries, and according to the US Bureau of Labor and Statistics, the job outlook has a much higher rate of growth than average. Read about the skills needed, typical pay, education requirements, and career outlook in this article and watch this video about the various types of jobs available as a market research analyst.



Knowledge Check

It’s time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Anaya is collecting information from a variety of sources to make a decision on where to market her new line of designer scarves. Anaya is conducting ________.

a. market intelligence
b. big data
c. management information system
d. marketing research

2.

The collection of data the company has gathered over time and used to make marketing decisions on a regular basis is called its ________.

a. big data
b. marketing information system
c. marketing research
d. survey data

3.

Ryan and Christie are uploading their recent pictures to Instagram, tagging the photographer and the venue. What is this content adding to?

a. Market intelligence
b. Big data
c. Management information system
d. Marketing research

4.

Which of the following is not a reason why marketing research is important for the success of a business?

a. It provides a guarantee of customer satisfaction.
b. It identifies opportunities in the market to explore.
c. It helps to quantify customer perceptions.
d. It uncovers weaknesses within a company.

5.

Which of the following would not be considered marketing research?

a. Analyzing the product purchases of current customers
b. Measuring the number of reactions to a social media post
c. Examining a competitor's database of information
d. Surveying potential employees about why they are interested in working for a company

---

4.4: What is the Difference Between Sales and Marketing

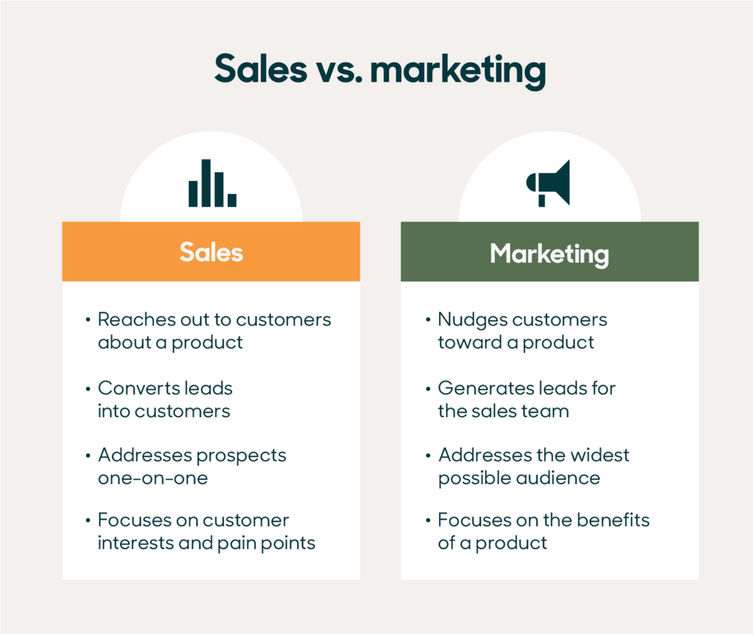


Fig. 4.4: Kumar, Kishan. "Sales vs. Marketin, *LinkedIn.com*

What's the Difference Between Sales and Marketing? (A Guide)

Many people use the terms marketing and sales interchangeably, since both business activities aim to sell products or services to consumers. While they share some similarities, these two concepts each have their own processes, strategies and goals. Knowing the differences between sales and marketing can help you determine what career path you wish to pursue. In this article, we define sales and marketing, compare both processes and describe you can integrate sales and marketing efforts successfully.

What is sales?

Sales is the process of selling and delivering products or services to consumers in exchange for compensation. Sales generation often involves expressing a product's benefits to potential customers through demonstrations. Companies can also offer discounts to make the product or service more attractive to consumers. A sale is the start of a contract between a vendor and a buyer. Salespeople are responsible for developing and cultivating relationships with potential and existing customers to help companies increase their sales and profitability.

What is marketing?

Marketing is the process of promoting goods or services to consumers to encourage sales. It usually involves analyzing consumers to better understand their needs or challenges, which can help marketers make purchases more appealing. Marketing also involves using measurable data, such as website visits, to determine customers' interests in a product or service. By using metrics, a marketing department can craft advertising that appeals to the people who are most likely to purchase a product or service.

Sales vs. Marketing

Here are some core elements of both sales and marketing, including the primary differences between the two, to help you understand each one more fully:

- Process

Both sales and marketing follow specific processes to achieve their goals. The marketing process focuses on informing consumers about a product or service. It involves creating strategies to market a product by explaining its benefits and describing the ways it can resolve challenges for consumers. The marketing process also includes determining the target audience for a product or service so marketers can create campaigns directly for those consumers. The sales process involves making an action plan to sell products or services using available tools and resources. While a marketing team works to make consumers aware of a product or service, a sales team works to convert that awareness into actual sales. Typically, salespeople interact directly with customers to provide more details about products or services. Sales teams often have specific goals they work toward as part of the sales process.

- Goals

The primary focus of both sales and marketing is to generate income for a business, but the time frame for achieving those goals is different. Marketing focuses on long-term goals to promote the company or its products and services. For example, a marketing goal may be to increase the company's brand awareness , which refers to customers' recognition of a business. Marketing campaigns centered on promotional goals can often last for several months or more. In contrast, sales teams usually focus on achieving short-term quotas or sales volume goals. They aim to move products as efficiently as possible from the company to the consumer. Achieving this goal usually requires dividing tasks among the entire team, with each salesperson being responsible for meeting a sales target. These sales targets may be weekly, monthly or quarterly.

- Strategies

Since marketing and sales have different time frames for their goals, they also have different strategies for achieving them. Marketing departments develop campaigns based on market research about a target audience. Marketers use this information to highlight the benefits of a product or service and proactively answer questions consumers may have.

Some common marketing strategies include:

- Focus groups
- Blogs
- Social media
- Email newsletters
- Direct mail materials

Sales departments typically use more direct strategies to convert leads into sales. They connect with potential customers in various ways, such as phone calls, emails or in-person events. Once they contact a lead, they make a sales pitch to convince the potential customer to buy a product or service.

Some common sales strategies include:

- Solution selling
- Networking
- Conceptual selling
- Gap selling

Approach

While marketing and sales teams may have similar goals, they have different approaches to their work. Here are the primary differences between the two approaches:

- Marketing Approach

Here are some key aspects of the marketing approach:

- Marketing applies to a wide range of users by creating the concept of an ideal customer, who represents a specific target audience.
- Marketing is usually a collective process that aims to promote products or services for broad appeal.
- Typically, marketing considers customer needs and uses them to develop effective promotional strategies.
- Customers represent the beginning of the marketing process.

Sales Approach

Below are some essential details about the sales approach:

- Typically, sales teams focus on individual leads, rather than on a wide range of potential customers.
- Sales is often a person-to-person process involving a salesperson and a potential customer.
- A sales department focuses on meeting the needs of the company to achieve sales goals.
- In sales, the customer represents the end of the supply chain.

Integrating Sales and Marketing

Companies can successfully integrate their sales and marketing efforts to achieve success. Typically, this integration can occur by using various methods, which include:

- ### Service level agreement

A service level agreement (SLA) links sales and marketing through a formal agreement. Most SLAs have a shared set of deliverables that one department can provide to the other. It creates a shared goal for both departments and aligns them accordingly. The marketing department, for example, may have the responsibility of developing an ideal customer profile and identifying leads for the sales department to pursue. The sales department may then be responsible for receiving those leads and contacting them to close sales and generate revenue.

- ### Lead generation

Businesses can also develop stronger relationships between sales and marketing by leveraging market research to better inform the sales process. This process may involve a lead generation system, which typically includes:

- **Cold leads**:

  These leads include people who have little or no awareness of a company's products or services. These leads usually come from marketing campaigns, such as social media ads, direct mailing and traditional advertisements.

- **Warm leads:**

  A warm lead is someone who has expressed interest in a product or company. They may come from various marketing strategies, such as personalized email messages or paid advertising.

- **Qualified leads:**

  These are consumers the marketing team has identified as ideal customers based on market research. The sales team can assess qualified leads to determine the best strategies to close deals and convert them into actual customers.

Source

Indeed Editorial Team. "What's the Difference Between Sales and Marketing? (A Guide). *Indeed.com.* February 3, 2023.

4.5: The 4 Ps of Marketing

What are the 4Ps of Marketing?

The **marketing mix** is commonly referred to as the tactics a company can use to promote its products or services in the market in order to influence consumers to buy. The marketing mix is also known as the 4Ps: product, price, place, and promotion Let's look more closely.

- The **product** is the good or service that the company provides.
- The **price** is what the consumer pays in exchange for the product.
- The **place** is where the product is purchased.
- **Promotion** is comprised of advertising, sales, and other communication efforts the company utilizes to attract the customer.

Fig. 4.5: "Marketing Mix." *Insights Marketing Blog* ; "The Marketing Mix and the 4Ps of Marketing." Principles of Marketing (OpenStax)

4.6: Conducting Market Research

Image Source: Riza Aprilliana, Pixabay

Consumer Behavior

Consumer behavior, or "buying behavior," is based on influences coming from a variety of sources, including marketers and the 4Ps (product, price, promotion, and place). Additional factors influencing consumer buying behavior range from:

- economic factors
- legal/political factors
- technological and
- cultural factors

Use Census Business Builder for Conducting Market Research

The *Census Business Builder (CBB)* (opens in New Window) is a suite of services that provide selected demographic and economic data from the Census Bureau tailored to specific types of users in a simple to access and use format. The video below provides a step-by-step way to conduct market research.

Finding Your Target Market

A target market is a group of people that have been identified as the most likely possible customers for your product. They may have certain characteristics in common such as age, income, lifestyle, personality, interests, or behavior. Identifying your target market is key to the development and implementation of a successful marketing plan for your product. The video below discusses these chracteristics in more depth.

Assess Your Knowledge

- What is the the definition of a target market?
- Identify an advertisement/ marketing campaign you enjoy. What makes it effective?
- Identify 3 out of the 8 characteristics provided that are a potential part of the target market of your chosen advertisement.

4.7: O'Net Exploration - Marketing and Sales

O*NET Online: Career Exploration Tool

Connect to **O*NET Online** (opens in new window) to explore the job and career fields you are interested in. Learn about the characteristics of the job or field as well as the education requirements needed to to be employed. Are they a good fit for you?

Identify

- the roles of sales and marketing teams within an organization

Explore

- work activities and tasks
- work environment and values
- technology skills used
- education or training requirements
- interests and abilities needed
- salary, wages, and employment trends

Jot down

- job title and description or summary
- occupation specific information (activities, tasks, environment)
- education or experience requirements
- worker characteristics or profile(personality type, abilities, interests
- why or why not is this job/career a good fit for you

CHAPTER OVERVIEW

5: The Role of Accounting in an Organization

5.1: Guiding Questions | Learning Objectives | Key Terms

Image Source: Megan Rexazin Conde, Pixabay

Guiding questions:

- What are the types of roles within the financial services or accounting department of an organization or business.
- What are the basic elements of financial statements (ex: balance sheet, income statement, and cash flow statement)
- What is the importance of financial integrity, accuracy, and reliability in accounting processes.
- What is the role of accounting in organizational decision-making and financial management.

Learning Objectives:

- I can define accounting.
- I can explain the purpose of the three basic financial statements.
- I can summarize how financial information impacts decision making in a business.
- I can identify users of accounting information.
- I can identify careers withing accounting.

Key Terms to Learn and Understand

- balance sheet
- income statement
- statement of owner's equity
- financial decision making
- language of business
- managerial accounting
- financial accounting
- cost accounting
- tax accounting
- payroll accounting
- integrity
- fiduciary
- fraud

5.2: Identify Users of Accounting Information and How They Apply Information

The ultimate goal of accounting is to provide information that is useful for decision-making. Users of accounting information are generally divided into two categories: internal and external. Internal users are those within an organization who use financial information to make day-to-day decisions. Internal users include managers and other employees who use financial information to confirm past results and help make adjustments for future activities.

External users are those outside of the organization who use the financial information to make decisions or to evaluate an entity's performance. For example, investors, financial analysts, loan officers, governmental auditors, such as IRS agents, and an assortment of other stakeholders are classified as external users, while still having an interest in an organization's financial information. (Stakeholders are addressed in greater detail in Explain Why Accounting Is Important to Business Stakeholders.)

Characteristics, Users, and Sources of Financial Accounting Information

Organizations measure financial performance in monetary terms. In the United States, the dollar is used as the standard measurement basis. Measuring financial performance in monetary terms allows managers to compare the organization's performance to previous periods, to expectations, and to other organizations or industry standards.

Financial accounting is one of the broad categories in the study of accounting. While some industries and types of organizations have variations in how the financial information is prepared and communicated, accountants generally use the same methodologies—called accounting standards—to prepare the financial information. You learn in Introduction to Financial Statements that financial information is primarily communicated through financial statements, which include the Income Statement, Statement of Owner's Equity, Balance Sheet, and Statement of Cash Flows and Disclosures. These financial statements ensure the information is consistent from period to period and generally comparable between organizations. The conventions also ensure that the information provided is both reliable and relevant to the user.

Virtually every activity and event that occurs in a business has an associated cost or value and is known as a **transaction**. Part of an accountant's responsibility is to quantify these activities and events. In this course you will learn about the many types of transactions that occur within a business. You will also examine the effects of these transactions, including their impact on the financial position of the entity.

Accountants often use computerized accounting systems to record and summarize the financial reports, which offer many benefits. The primary benefit of a computerized accounting system is the efficiency by which transactions can be recorded and summarized, and financial reports prepared. In addition, computerized accounting systems store data, which allows organizations to easily extract historical financial information.

Common computerized accounting systems include QuickBooks, which is designed for small organizations, and SAP, which is designed for large and/or multinational organizations. QuickBooks is popular with smaller, less complex entities. It is less expensive than more sophisticated software packages, such as Oracle or SAP, and the QuickBooks skills that accountants developed at previous employers tend to be applicable to the needs of new employers, which can reduce both training time and costs spent on acclimating new employees to an employer's software system. Also, being familiar with a common software package such as QuickBooks helps provide employment mobility when workers wish to reenter the job market.

While QuickBooks has many advantages, once a company's operations reach a certain level of complexity, it will need a basic software package or platform, such as Oracle or SAP, which is then customized to meet the unique informational needs of the entity.

Financial accounting information is mostly historical in nature, although companies and other entities also incorporate estimates into their accounting processes. For example, you will learn how to use estimates to determine bad debt expenses or depreciation expenses for assets that will be used over a multiyear lifetime. That is, accountants prepare financial reports that summarize what has already occurred in an organization. This information provides what is called feedback value. The benefit of reporting what has already occurred is the reliability of the information. Accountants can, with a fair amount of confidence, accurately report the financial performance of the organization related to past activities. The feedback value offered by the accounting information is particularly useful to internal users. That is, reviewing how the organization performed in the past can help managers and other employees make better decisions about and adjustments to future activities.

Financial information has limitations, however, as a predictive tool. Business involves a large amount of uncertainty, and accountants cannot predict how the organization will perform in the future. However, by observing historical financial information, users of the information can detect patterns or trends that may be useful for estimating the company's future financial performance. Collecting and analyzing a series of historical financial data is useful to both internal and external users. For example, internal users can use financial information as a predictive tool to assess whether the long-term financial performance of the organization aligns with its long-term strategic goals.

External users also use the historical pattern of an organization's financial performance as a predictive tool. For example, when deciding whether to loan money to an organization, a bank may require a certain number of years of financial statements and other financial information from the organization. The bank will assess the historical performance in order to make an informed decision about the organization's ability to repay the loan and interest (the cost of borrowing money). Similarly, a potential investor may look at a business's past financial performance in order to assess whether or not to invest money in the company. In this scenario, the investor wants to know if the organization will provide a sufficient and consistent return on the investment. In these scenarios, the financial information provides value to the process of allocating scarce resources (money). If potential lenders and investors determine the organization is a worthwhile investment, money will be provided, and, if all goes well, those funds will be used by the organization to generate additional value at a rate greater than the alternate uses of the money.

Characteristics, Users, and Sources of Managerial Accounting Information

As you've learned, managerial accounting information is different from financial accounting information in several respects. Accountants use formal accounting standards in financial accounting. These accounting standards are referred to as **generally accepted accounting principles (GAAP)** and are the common set of rules, standards, and procedures that publicly traded companies must follow when composing their financial statements. The previously mentioned **Financial Accounting Standards Board (FASB)**, an independent, nonprofit organization that sets financial accounting and reporting standards for both public and private sector businesses in the United States, uses the GAAP guidelines as its foundation for its system of accepted accounting methods and practices, reports, and other documents.

Since most managerial accounting activities are conducted for internal uses and applications, managerial accounting is not prepared using a comprehensive, prescribed set of conventions similar to those required by financial accounting. This is because managerial accountants provide managerial accounting information that is intended to serve the needs of internal, rather than external, users. In fact, managerial accounting information is rarely shared with those outside of the organization. Since the information often includes strategic or competitive decisions, managerial accounting information is often closely protected. The business environment is constantly changing, and managers and decision makers within organizations need a variety of information in order to view or assess issues from multiple perspectives.

Accountants must be adaptable and flexible in their ability to generate the necessary information management decision-making. For example, information derived from a computerized accounting system is often the starting point for obtaining managerial accounting information. But accountants must also be able to extract information from other sources (internal and external) and analyze the data using mathematical, formula-driven software (such as Microsoft Excel).

Management accounting information as a term encompasses many activities within an organization. Preparing a budget, for example, allows an organization to estimate the financial performance for the upcoming year or years and plan for adjustments to scale operations according to the projections. Accountants often lead the budgeting process by gathering information from internal (estimates from the sales and engineering departments, for example) and external (trade groups and economic forecasts, for example) sources. These data are then compiled and presented to decision makers within the organization.

Examples of other decisions that require management accounting information include whether an organization should repair or replace equipment, make products internally or purchase the items from outside vendors, and hire additional workers or use automation.

As you have learned, management accounting information uses both financial and nonfinancial information. This is important because there are situations in which a purely financial analysis might lead to one decision, while considering nonfinancial information might lead to a different decision. For example, suppose a financial analysis indicates that a particular product is unprofitable and should no longer be offered by a company. If the company fails to consider that customers also purchase a complementary good (you might recall that term from your study of economics), the company may be making the wrong decision. For example, assume that you have a company that produces and sells both computer printers and the replacement ink cartridges. If the company decided to eliminate the printers, then it would also lose the cartridge sales. In the past, in some cases, the elimination of one component, such as printers, led to customers switching to a different producer for its computers and other peripheral hardware. In the end, an organization needs to consider both the financial and nonfinancial aspects of a decision, and sometimes the effects are not intuitively obvious at the time of the decision. Figure 1.3 offers an overview of some of the differences between financial and managerial accounting.

COMMUNICATION THROUGH REPORTING	FINANCIAL ACCOUNTING	MANAGERIAL ACCOUNTING
Users of reports	External users: stockholders, creditors, regulators	Internal users: managers, officers, and other employees
Types of reports	Financial statements: balance sheet, income statement, cash-flow statement, etc.	Internal reports: job cost sheet, cost of goods manufactured, production cost report, etc.
Frequency of reports	Quarterly; annually	As frequently as needed
Purpose of reports	Helps those external users make decisions: credit terms, investment, and other decisions	Assists the internal users in the planning and control decision-making process
Focus of reports	Pertains to company as a whole Uses GAAP structure Composed from a multitude or combination of other more individual data	Pertains to departments, sections of the business Very detailed reporting No GAAP constraints
Nature of reports	Monetary	Monetary and nonmonetary information
Verification of reports	Audited by CPA	No independent audits

Figure 1.3 Comparing Reports between Financial and Managerial Accounting. (attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

5.3: Describe Typical Accounting Activities and the Role Accountants Play in Identifying, Recording, and Reporting Financial Activities

We can classify organizations into three categories: for profit, governmental, and not for profit. These organizations are similar in several aspects. For example, each of these organizations has inflows and outflows of cash and other resources, such as equipment, furniture, and land, that must be managed. In addition, all of these organizations are formed for a specific purpose or mission and want to use the available resources in an efficient manner—the organizations strive to be good stewards, with the underlying premise of being profitable. Finally, each of the organizations makes a unique and valuable contribution to society. Given the similarities, it is clear that all of these organizations have a need for accounting information and for accountants to provide that information.

There are also several differences. The main difference that distinguishes these organizations is the primary purpose or mission of the organization, discussed in the following sections.

For-Profit Businesses

As the name implies, the primary purpose or mission of a **for-profit business** is to earn a profit by selling goods and services. There are many reasons why a for-profit business seeks to earn a profit. The profits generated by these organizations might be used to create value for employees in the form of pay raises for existing employees as well as hiring additional workers. In addition, profits can be reinvested in the business to create value in the form of research and development, equipment upgrades, facilities expansions, and many other activities that make the business more competitive. Many companies also engage in charitable activities, such as donating money, donating products, or allowing employees to volunteer in the communities. Finally, profits can also be shared with employees in the form of either bonuses or commissions as well as with owners of the business as a reward for the owners' investment in the business. These issues, along with others, and the associated accounting conventions will be explored throughout this course.

In for-profit businesses, accounting information is used to measure the financial performance of the organization and to help ensure that resources are being used efficiently. Efficiently using existing resources allows the businesses to improve quality of the products and services offered, remain competitive in the marketplace, expand when appropriate, and ensure longevity of the business.

For-profit businesses can be further categorized by the types of products or services the business provides. Let's examine three types of for-profit businesses: manufacturing, retail (or merchandising), and service.

Manufacturing Businesses

A **manufacturing business** is a for-profit business that is designed to make a specific product or products. Manufacturers specialize in procuring components in the most basic form (often called direct or raw materials) and transforming the components into a finished product that is often drastically different from the original components.

As you think about the products you use every day, you are probably already familiar with products made by manufacturing firms. Examples of products made by manufacturing firms include automobiles, clothes, cell phones, computers, and many other products that are used every day by millions of consumers.

In Job Order Costing, you will examine the process of job costing, learning how manufacturing firms transform basic components into finished, sellable products and the techniques accountants use to record the costs associated with these activities.

CONCEPTS IN PRACTICE

Manufacturing

Think about the items you have used today. Make a list of the products that were created by manufacturing firms. How many can you think of? Think of the many components that went into some of the items you use. Do you think the items were made by machines or by hand?

If you are in a classroom with other students, see who has used the greatest number of items today. Or, see who used the item that would be the most complex to manufacture.

If you are able, you might consider arranging a tour of a local manufacturer. Many manufacturers are happy to give tours of the facilities and describe the many complex processes that are involved in making the products. On your tour, take note of the many job functions that are required to make those items—from ordering the materials to delivering to the customer.

Retail Businesses

Manufacturing businesses and retail (or merchandising) businesses are similar in that both are for-profit businesses that sell products to consumers. In the case of manufacturing firms, by adding direct labor, manufacturing overhead (such as utilities, rent, and depreciation), and other direct materials, raw components are converted into a finished product that is sold to consumers. A **retail business** (or merchandising business), on the other hand, is a for-profit business that purchases products (called inventory) and then resells the products without altering them—that is, the products are sold directly to the consumer in the same condition (production state) as purchased.

Examples of retail firms are plentiful. Automobile dealerships, clothes, cell phones, and computers are all examples of everyday products that are purchased and sold by retail firms. What distinguishes a manufacturing firm from a retail firm is that in a retail firm, the products are sold in the same condition as when the products were purchased—no further alterations were made on the products.

Did you happen to notice that the product examples listed in the preceding paragraph (automobiles, clothes, cell phones, and computers) for manufacturing firms and retail firms are identical? If so, congratulations, because you are paying close attention to the details. These products are used as examples in two different contexts—that is, manufacturing firms *make* these products, and retail firms *sell* these products. These products are relevant to both manufacturing and retail because they are examples of goods that are both manufactured and sold directly to the consumer. While there are instances when a manufacturing firm also serves as the retail firm (**Dell** computers, for example), it is often the case that products will be manufactured and sold by separate firms.

CONCEPTS IN PRACTICE

NIKEiD

NIKEiD is a program that allows consumers to design and purchase customized equipment, clothes, and shoes. In 2007, **Nike** opened its first NIKEiD studio at Niketown in New York City.[1] Since its debut in 1999, the NIKEiD concept has flourished, and **Nike** has partnered with professional athletes to showcase their designs that, along with featured consumer designs, are available for purchase on the NIKEiD website.

Figure 1.4 NIKEiD Launch Store in Shanghai. (credit: “Nike-id-shanghai-launch” by “All.watson”/Wikimedia Commons, CC BY 2.0)

Assume you are the manager of a sporting goods store that sells Nike shoes. Think about the concept of NIKEiD, and consider the impact that this concept might have on your store sales. Would this positively or negatively impact the sale of **Nike** shoes in your store? What are steps you could take to leverage the NIKEiD concept to help increase your own store’s sales?

Considerations like this are examples of what marketing professionals would address. **Nike** wants to ensure this concept does not negatively impact the existing relationships it has, and **Nike** works to ensure this program is also beneficial to its existing distribution partners.

In Merchandising Transactions you will learn about merchandising transactions, which include concepts and specific accounting practices for retail firms. You will learn, among other things, how to account for purchasing products from suppliers, selling the products to customers, and prepare the financial reports for retail firms.

Service Businesses

As the term implies, service businesses are businesses that provide services to customers. A major difference between manufacturing and retail firms and service firms is that service firms do not have a tangible product that is sold to customers. Instead, a **service business** does not sell tangible products to customers but rather provides intangible benefits (services) to customers. A service business can be either a for-profit or a not-for-profit business. Figure 1.5 illustrates the distinction between manufacturing, retail, and service businesses.

Examples of service-oriented businesses include hotels, cab services, entertainment, and tax preparers. Efficiency is one advantage service businesses offer to their customers. For example, while taxpayers can certainly read the tax code, read the instructions, and complete the forms necessary to file their annual tax returns, many choose to take their tax returns to a person who has specialized training and experience with preparing tax returns. Although it is more expensive to do so, many feel it is a worthwhile investment because the tax professional has invested the time and has the knowledge to prepare the forms properly and in a timely manner. Hiring a tax preparer is efficient for the taxpayer because it allows the taxpayer to file the required forms without having to invest numerous hours researching and preparing the forms.

The accounting conventions for service businesses are similar to the accounting conventions for manufacturing and retail businesses. In fact, the accounting for service businesses is easier in one respect. Because service businesses do not sell tangible products, there is no need to account for products that are being held for sale (inventory). Therefore, while we briefly discuss service businesses, we'll focus mostly on accounting for manufacturing and retail businesses.

Figure 1.5 Manufacturing, Retail, and Service. An auto manufacturing plant, a car sales lot, and a taxi represent three types of businesses: manufacturing, retail, and service. (credit left: modification of "Maquiladora" by "Guldhammer"/Wikimedia Commons, CC0; credit center: modification of "Mercedes Benz Parked" by unknown/Pixabay, CC0; credit right: modification of "Taxi Overtaking Bus" by "Kai Pilger"/Pixabay, CC0)

YOUR TURN

Categorizing Restaurants

So far, you've learned about three types of for-profit businesses: manufacturing, retail, and service. Previously, you saw how some firms such as **Dell** serve as both manufacturer and retailer.

Now, think of the last restaurant where you ate. Of the three business types (manufacturer, retailer, or service provider), how would you categorize the restaurant? Is it a manufacturer? A retailer? A service provider? Can you think of examples of how a restaurant has characteristics of all three types of businesses?

Solution

Answers will vary. Responses may initially consider a restaurant to be only a service provider. Students may also recognize that a restaurant possesses aspects of a manufacturer (by preparing the meals), retailer (by selling merchandise and/or gift cards), and service provider (by waiting on customers).

Governmental Entities

A **governmental entity** provides services to the general public (taxpayers). Governmental agencies exist at the federal, state, and local levels. These entities are funded through the issuance of taxes and other fees.

Accountants working in governmental entities perform the same function as accountants working at for-profit businesses. Accountants help to serve the public interest by providing to the public an accounting for the receipts and disbursements of taxpayer dollars. Governmental leaders are accountable to taxpayers, and accountants help assure the public that tax dollars are being utilized in an efficient manner.

Examples of governmental entities that require financial reporting include federal agencies such as the Social Security Administration, state agencies such as the Department of Transportation, and local agencies such as county engineers.

Students continuing their study of accounting may take a specific course or courses related to governmental accounting. While the specific accounting used in governmental entities differs from traditional accounting conventions, the goal of providing accurate and unbiased financial information useful for decision-making remains the same, regardless of the type of entity. Government accounting standards are governed by the **Governmental Accounting Standards Board (GASB)**. This organization creates standards that are specifically appropriate for state and local governments in the United States.

Not-for-Profit Entities

To be fair, the name "not-for-profit" can be somewhat confusing. As with "for-profit" entities, the name refers to the primary purpose or mission of the organization. In the case of for-profit organizations, the primary purpose is to generate a profit. The profits, then, can be used to sustain and improve the business through investments in employees, research, and development, and other measures intended to help ensure the long-term success of the business.

But in the case of a **nonprofit (not-for-profit) organization** the primary purpose or mission is to serve a particular interest or need in the community. A not-for-profit entity tends to depend on financial longevity based on donations, grants, and revenues generated. It may be helpful to think of not-for-profit entities as "mission-based" entities. It is important to note that not-for-profit entities, while having a primary purpose of serving a particular interest, also have a need for financial sustainability. An adage in the not-for-profit sector states that "being a not-for-profit organization does not mean it is for-loss." That is, not-for-profit entities must also ensure that resources are used efficiently, allowing for inflows of resources to be greater than (or, at a minimum, equal to) outflows of resources. This allows the organization to continue and perhaps expand its valuable mission.

Examples of not-for-profit entities are numerous. Food banks have as a primary purpose the collection, storage, and distribution of food to those in need. Charitable foundations have as a primary purpose the provision of funding to local agencies that support specific community needs, such as reading and after-school programs. Many colleges and universities are structured as not-for-profit entities because the primary purpose is to provide education and research opportunities.

Similar to accounting for governmental entities, students continuing their study of accounting may take a specific course or courses related to not-for-profit accounting. While the specific accounting used in not-for-profit entities differs slightly from traditional accounting conventions, the goal of providing reliable and unbiased financial information useful for decision-making is vitally important. Some of the governmental and regulatory entities involved in maintaining the rules and principles in accounting are discussed in Explain Why Accounting Is Important to Business Stakeholders.

YOUR TURN

Types of Organizations

Think of the various organizations discussed so far. Now try to identify people in your personal and professional network who work for these types of agencies. Can you think of someone in a career at each of these types of organizations?

One way to explore career paths is to talk with professionals who work in the areas that interest you. You may consider reaching out to the individuals you identified and learning more about the work that they do. Find out about the positive and negative aspects of the work. Find out what advice they have relating to education. Try to gain as much information as you can to determine whether that is a career you can envision yourself pursuing. Also, ask about opportunities for job shadowing, co-ops, or internships

Solution

Answers will vary, but this should be an opportunity to learn about careers in a variety of organizations (for-profit including manufacturing, retail, and services; not-for-profit; and governmental agencies). You may have an assumption about a career that is based only on the positive aspects. Learning from experienced professionals may help you understand all aspects of the careers. In addition, this exercise may help you confirm or alter your potential career path, including the preparation required (based on advice given from those you talk with).

Footnotes

- 1 Nike. "Nike Opens New NIKEiD Studio in New York." October 4, 2007. https://news.nike.com/news/nike-open...io-in-new-york

---

5.4: Describe the Varied Career Paths Open to Individuals with an Accounting Education

There are often misunderstandings on what exactly accountants do or what attributes are necessary for a successful career in accounting. Often, people perceive accountants as “number-crunchers” or “bean counters” who sit behind a desk, working with numbers, and having little interaction with others. The fact is that this perception could not be further from the truth.

Personal Attributes

While it is true that accountants often work independently, much of the work that accountants undertake involves interactions with other people. In fact, accountants frequently need to gather information from others and explain complex financial concepts to others, making excellent written and verbal communication skills a must. In addition, accountants often deal with strict deadlines such as tax filings, making prioritizing work commitments and being goal oriented necessities. In addition to these skills, traditionally, an accountant can be described as someone who

- is goal oriented,
- is a problem solver,
- is organized and analytical,
- has good interpersonal skills,
- pays attention to detail,
- has good time-management skills, and
- is outgoing.

The Association of Chartered Certified Accountants (ACCA), the governing body of the global Chartered Certified Accountant (CCA) designation, and the Institute of Management Accountants (IMA), the governing body of the Certified Management Accountant (CMA) designation, conducted a study to research the skills accountants will need given a changing economic and technological context. The findings indicate that, in addition to the traditional personal attributes, accountants should possess “traits such as entrepreneurship, curiosity, creativity, and strategic thinking.”[4]

Education

Entry-level positions in the accounting profession usually require a minimum of a bachelor’s degree. For advanced positions, firms may consider factors such as years of experience, professional development, certifications, and advanced degrees, such as a master’s or doctorate. The specific factors regarding educational requirements depend on the industry and the specific business.

After earning a bachelor’s degree, many students decide to continue their education by earning a master’s degree. A common question for students is when to begin a master’s program, either entering a master’s program immediately after earning a bachelor’s degree or first entering the profession and pursuing a master’s at a later point. On one hand, there are benefits of entering into a master’s program immediately after earning a bachelor’s degree, mainly that students are already into the rhythm of being a full-time student so an additional year or so in a master’s program is appealing. On the other hand, entering the profession directly after earning a bachelor’s degree allows the student to gain valuable professional experience that may enrich the graduate education experience. When to enter a graduate program is not an easy decision. There are pros and cons to either position. In essence, the final decision depends on the personal perspective and alternatives available to the individual student. For example, one student might not have the financial resources to continue immediately on to graduate school and will first need to work to fund additional education, while another student might have outside suppliers of resources or is considering taking on additional student loan debt. The best recommendation for these students is to consider all of the factors and realize that they must make the final decision as to their own best alternative. It is also important to note that if one makes the decision to enter public accounting, as all states require 150 hours of education to earn a Certified Public Accountant (CPA) license, it is customary for regional and national public accounting firms to require a master’s degree or 150 hours earned by other means as a condition for employment; this may influence your decision to enter a master’s degree program as soon as the bachelor’s degree is complete.

Related Careers

An accounting degree is a valuable tool for other professions too. A thorough understanding of accounting provides the student with a comprehensive understanding of business activity and the importance of financial information to make informed decisions. While an accounting degree is a necessity to work in the accounting profession, it also provides a solid foundation for other careers, such as financial analysts, personal financial planners, and business executives. The number of career options may seem overwhelming at this point, and a career in the accounting profession is no exception. The purpose of this section is to simply highlight the vast number of options that an accounting degree offers. In the workforce, accounting professionals can find a career that best fits their interests.

Students may also be interested in learning more about professional certifications in the areas of financial analysis (Chartered Financial Analyst) and personal financial planning (Certified Financial Planner), which are discussed later in this section.

Major Categories of Accounting Functions

It is a common perception that an accounting career means preparing tax returns. While numerous accountants do prepare tax returns, many people are surprised to learn of the variety of career paths that are available within the accounting profession. An accounting degree is a valuable tool that gives accountants a high level of flexibility and many options. Often individual accountants apply skills in several of the following career paths simultaneously. Figure 1.8 illustrates some of the many career paths open to accounting students.

Figure 1.8 Career Paths. There are many career paths open to students of accounting. (attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

Auditing

Auditing, which is performed by accountants with a specialized skill set, is the process of ensuring activities are carried out as intended or designed. There are many examples of the functions that auditors perform. For example, in a manufacturing company, auditors may sample products and assess whether or not the products conform to the customer specifications. As another example, county auditors may test pumps at gas stations to ensure the pumps are delivering the correct amount of gasoline and charging customers correctly.

Companies should develop policies and procedures to help ensure the company’s goals are being met and the assets are protected. This is called the internal control system. To help maintain the effectiveness of the internal control system, companies often hire internal auditors, who evaluate internal controls through reviews and tests. For example, internal auditors may review the process of how cash is handled within a business. In this scenario, the goal of the company is to ensure that all cash payments are properly applied to customer accounts and that all funds are properly deposited into the company’s bank account. As another example, internal auditors may review the shipping and receiving process to ensure that all products shipped or received have the proper paperwork and the product is handled and stored properly. While internal auditors also often work to ensure compliance with external regulations, the primary goal of internal auditors is to help ensure the company policies are followed, which helps the company attain its strategic goals and protect its assets. The professional certification most relevant to a career in internal audit is the Certified Internal Auditor (CIA). Financial fraud occurs when an individual or individuals act with intent to deceive for a financial gain. A Certified Fraud Examiner (CFE) is trained to prevent fraud from occurring and to detect when fraud has occurred. A thorough discussion of the internal control system and the role of accountants occurs in Fraud, Internal Controls, and Cash.

Companies also want to ensure the financial statements provided to outside parties such as banks, governmental agencies, and the investing public are reliable and consistent. That is, companies have a desire to provide financial statements that are free of errors or fraud. Since internal auditors are committed to providing unbiased financial information, it would be possible for the company to use internal auditors to attest to the integrity of the company's financial statements. With that said, doing so presents the appearance of a *possibility* of a conflict of interest and could call into question the validity of the financial statements. Therefore, companies hire external auditors to review and attest to the integrity of the financial statements. External auditors typically work for a public accounting firm. Although the public accounting firm is hired by the company to attest to the fairness of the financial statements, the external auditors are independent of the company and provide an unbiased opinion.

Taxation

There are many taxes that businesses are required to pay. Examples include income taxes, payroll and related taxes such as workers' compensation and unemployment, property and inventory taxes, and sales and use taxes. In addition to making the tax payments, many of the taxes require tax returns and other paperwork to be completed. Making things even more complicated is the fact that taxes are levied at the federal, state, and local levels. For larger worldwide companies, the work needed to meet their international tax compliance requirements can take literally thousands of hours of accountants' time. To sum up the process, the goal of tax accountants is to help ensure the taxes are paid properly and in a timely manner, from an individual level all the way to the company level (including at the level of such companies as **Apple** and **Walmart**).

Since accountants have an understanding of various tax laws and filing deadlines, they are also well-positioned to offer tax planning advice. Tax laws are complex and change frequently; therefore, it is helpful for businesses to include tax considerations in their short- and long-term planning. Accountants are a valuable resource in helping businesses minimize the tax liability.

Many businesses find it necessary to employ accountants to work on tax compliance and planning on a full-time basis. Other businesses need these services on a periodic (quarterly or annual) basis and hire external accountants accordingly.

Financial Accounting

Financial accounting measures, in dollars, the activities of an organization. Financial accounting is historical in nature and is prepared using standard conventions, called accounting standards or GAAP. Because nearly every activity in an organization has a financial implication, financial accounting might be thought of as a "monetary scorecard."

Financial accounting is used internally by managers and other decision makers to validate activities that were done well and to highlight areas that need adjusted in the future. Businesses often use discretion as to how much and with whom financial accounting information is shared.

Financial accounting is also provided to those outside the organization. For a publicly traded company, issuing financial statements is required by the SEC. Sharing financial information for a privately held company is usually reserved for those instances where the information is required, such as for audits or obtaining loans.

Consulting

Because nearly every activity within an organization has a financial implication, accountants have a unique opportunity to gain a comprehensive view of an organization. Accountants are able to see how one area of a business affects a different aspect of the business. As accountants gain experience in the profession, this unique perspective allows them to build a "knowledge database" that is valuable to businesses. In this capacity, accountants can provide **consulting** services, which means giving advice or guidance to managers and other decision makers on the impact (both financial and nonfinancial) of a potential course of action. This role allows the organization to gain knowledge from the accountants in a way that minimizes risk and/or financial investment.

As discussed previously, accountants may advise a business on tax-related issues. Other examples of consultative services that accountants perform include selection and installation of computer software applications and other technology considerations, review of internal controls, determination of compliance with relevant laws and regulations, review of compensation and incentive arrangements, and consideration of operational efficiencies within the production process.

Accounting Information Services

Computers are an integral part of business. Computers and related software programs allow companies to efficiently record, store, and process valuable data and information relevant to the business. Accountants are often an integral part of the selection and maintenance of the company's computerized accounting and information system. The goal of the accounting information system is to efficiently provide relevant information to internal decision makers, and it is important for businesses to stay abreast of advances in technology and invest in those technologies that help the business remain efficient and competitive.

Significant growth is expected in accounting information systems careers. According to the US Bureau of Labor Statistics, in 2010 there were over 130,000 jobs in the accounting informations systems sector, with over 49% growth expected through 2024. Median earnings in this field were over $73,000 in 2011.[5] For those interested in both accounting and computer information systems, there are tremendous career opportunities.

CONCEPTS IN PRACTICE

Enterprise Resource Planning

As companies grow in size and expand geographically, it is important to assess whether or not a current computerized system is *the right size and fit* for the organization. For example, a company with a single location can easily manage its business activities with a small, off-the-shelf software package such as **QuickBooks** and software applications such as **Microsoft** Excel. A company's computer system becomes more complex when additional locations are added.

Figure 1.9 Growth. (credit: "Statistics Arrows Trends" by "geralt"/Pixabay, CC0)

As companies continue to grow, larger integrated computer systems, called enterprise resource planning (ERP) systems, may be implemented. Enterprise resource planning systems are designed to maintain the various aspects of the business within a single integrated computer system. For example, a leading ERP system is **Microsoft** Dynamics GP. **Microsoft**Dynamics GP is an integrated sytem with the capability to handle the human resource management, production, accounting, manufacturing, and many other aspects of a business. ERP systems, like **Microsoft** Dynamics GP, are also designed to accommodate companies that have international locations. The benefit of ERP systems is that information is efficiently stored and utilized across the entire business in real time.

Cost and Managerial Accounting

Cost accounting and managerial accounting are related, but different, types of accounting. In essence, a primary distinction between the two functions is that cost accounting takes a primarily quantitative approach, whereas managerial accounting takes both quantitative and qualitative approaches. The goal of cost accounting is to determine the costs involved with providing goods and services. In a manufacturing business, **cost accounting** is the recording and tracking of costs such as direct materials, employee wages, and supplies used in the manufacturing process.

Managerial accounting uses cost accounting and other financial accounting information, as well as nonfinancial information, to make short-term as well as strategic and other long-term decisions for a business.

Both cost and managerial accounting are intended to be used inside a business. Along with financial accounting information, managers and other decision makers within a business use the information to facilitate decision-making, develop long-term plans, and perform other functions necessary for the success of the business.

There are two major differences between cost and managerial accounting and financial accounting. Whereas financial accounting requires the use of standard accounting conventions (also called accounting standards or GAAP), there are no such requirements for cost and managerial accounting. In practice, management has different needs that require cost and managerial accounting information. In addition, financial information is prepared in specific intervals of time, usually monthly. The same is not true with cost and managerial accounting, which are prepared on an as-needed basis that is not reported as specific periods of time.

An example may be helpful in clarifying the difference between cost and managerial accounting. Manufacturing companies often face the decision of whether to make certain components or purchase the components from an outside supplier. Cost accounting would calculate the cost of each alternative. Managerial accounting would use that cost and supplement the cost with nonfinancial information to arrive at a decision. Let's say the cost accountants determine that a company would save $0.50 per component if the units were purchased from an outside supplier rather than being produced by the company. Managers would use the $0.50 per piece savings as well as nonfinancial considerations, such as the impact on the morale of current employees and the supplier's ability to produce a quality product, to make a decision whether or not to purchase the component from the outside supplier.

In summary, it may be helpful to think of cost accounting as a subset of managerial accounting. Another way to think about cost and managerial accounting is that the result of cost accounting is a number, whereas the result of managerial accounting is a decision.

Financial Planning

While accountants spend much of their time interacting with other people, a large component of their work involves numbers and finances. As mentioned previously, many people with an interest in data often go into the accounting profession and have a natural inclination toward solving problems. In addition, accountants also gain a comprehensive view of business. They understand how the diverse aspects of the business are connected and how those activities ultimately have a financial impact on the organization.

These attributes allow accountants to offer expertise in financial planning, which takes many forms. Within a business, making estimates and establishing a plan for the future—called a budget—are vital. These actions allow the business to determine the appropriate level of activity and make any adjustments accordingly. Training in accounting is also helpful for those who offer financial planning for individuals. When it comes to investing and saving for the future, there are many options available to individuals. Investing is complicated, and many people want help from someone who understands the complexities of the investment options, the tax implications, and ways to invest and build wealth. Accountants are well trained to offer financial planning services to the businesses they work with as well as individuals investing for their future.

Entrepreneurship

Many people have an idea for a product or service and decide to start their own business—they are often labeled as entrepreneurs. These individuals have a passion for their product or service and are experts at what they do. But that is not enough. In order for the business to be successful, the entrepreneur must understand all aspects of the business, including and especially the financial aspect. It is important for the entrepreneur to understand how to obtain the funding to start the business, measure the financial performance of the business, and know what adjustments to improve the performance of the business are necessary and when to make them. Understanding accounting, or hiring accountants who can perform these activities, is valuable to the entrepreneur. An entrepreneur works extremely hard and has often taken a great risk in starting his or her own business. Understanding the financial performance of the business helps ensure the business is successful.

CONCEPTS IN PRACTICE

Entrepreneurship

Entrepreneurs do not have to develop a brand new product or service in order to open their own business. Often entrepreneurs decide to purchase a store from a business that already exists. This is called a franchise arrangement. In these arrangements, the business owner (the franchisee) typically pays the franchisor (the business offering the franchise opportunity) a lump sum at the beginning of the arrangement. This lump sum payment allows the franchisee an opportunity to use the store logos and receive training, consulting, and other support from the franchisor. A series of scheduled payments is also common. The ongoing payments are often based on a percentage of the franchise store's sales.

The franchise arrangement is beneficial to both parties. For the franchisee, there is less risk involved because they often purchase a franchise from a business with an established track record of success. For the franchisor, it is an opportunity to build the brand without the responsibility of direct oversight for individual stores—each franchise is independently owned and operated (a phrase you might see on franchise stores).

The downside of the franchising arrangement is the amount of money that is paid to the franchisor through the initial lump sum as well as continued payments. These costs, however, are necessary for the ongoing support from the franchisor. In addition, franchisees often have restrictions relative to product pricing and offerings, geographic locations, and approved suppliers.

According to Entrepreneur.com, based on factors such as costs and fees, support, and brand strength, the number one–ranking franchise in 2017 was **7-Eleven, Inc.** According to the website, **7-Eleven** has been franchising since 1964 and has 61,086 franchise stores worldwide (7,025 are located in the United States). In addition, **7-Eleven** has 1,019 company-owned stores.[6]

Major Categories of Employers

Now that you've learned about the various career paths that accountants can take, let's briefly look at the types of organizations that accountants can work for. Figure 1.10 illustrates some common types of employers that require accountants. While this is not an all-inclusive list, most accountants in the profession are employed by these types of organizations.

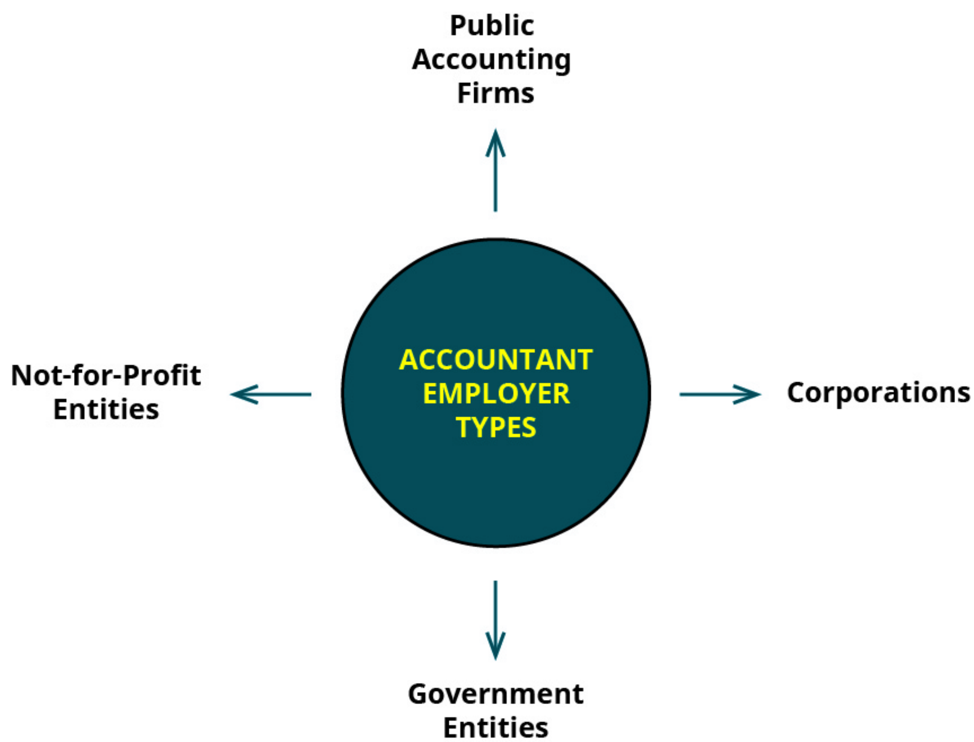


Figure 1.10 Accountant Employer Types. Accountants may find employment within a variety of types of entities. (attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

Public Accounting Firms

Public accounting firms offer a wide range of accounting, auditing, consulting, and tax preparation services to their clients. A small business might use a public accounting firm to prepare the monthly or quarterly financial statements and/or the payroll. A business (of any size) might hire the public accounting firm to audit the company financial statements or verify that policies and procedures are being followed properly. Public accounting firms may also offer consulting services to their clients to advise them on implementing computerized systems or strengthening the internal control system. (Note that you will learn in your advanced study of accounting that accountants have legal limitations on what consulting services they can provide to their clients.) Public accounting firms also offer tax preparation services for their business and individual clients. Public accounting firms may also offer business valuation, forensic accounting (financial crimes), and other services.

Public accounting firms are often categorized based on the size (revenue). The biggest firms are referred to as the "Big Four" and include **Deloitte Touche Tohmatsu Limited** (DTTL), **PricewaterhouseCoopers** (PwC), **Ernst & Young** (EY), and **KPMG**. Following the Big Four in size are firms such as **RSM US**, **Grant Thornton**, **BDO USA**, **Crowe**, and **CliftonLarsonAllen (CLA)**.[7] There are also many other regional and local public accounting firms.

Public accounting firms often expect the accountants they employ to have earned (or will earn) the Certified Public Accountant (CPA) designation. It is not uncommon for public accounting firms to specialize. For example, some public accounting firms may specialize in serving clients in the banking or aerospace industries. In addition to specializing in specific industries, public accounting firms may also specialize in areas of accounting such as tax compliance and planning.

Hiring public accounting firms to perform various services is an attractive option for many businesses. The primary benefit is that the business has access to experts in the profession without needing to hire accounting specialists on a full-time basis.

Corporations

Corporations hire accountants to perform various functions within the business. The primary responsibility of corporate accountants (which include cost and managerial accountants) is to provide information for internal users and decision makers, as well as implement and monitor internal controls. The information provided by corporate accountants takes many forms. For example, some of the common responsibilities of corporate accountants include calculating and tracking the costs of providing goods and services, analyzing the financial performance of the business in comparison to expectations, and developing budgets, which help the company plan for future operations and make any necessary adjustments. In addition, many corporate accountants have the responsibility for or help with the company's payroll and computer network.

In smaller corporations, an accountant may be responsible for or assist with several of these activities. In larger firms, however, accountants may specialize in one of the areas of responsibilities and may rotate responsibilities throughout their career. Many larger firms also use accountants as part of the internal audit function. In addition, many large companies are able to dedicate resources to making the organization more efficient. Programs such as Lean Manufacturing and Six Sigma focus on reducing waste and eliminating cost within the organization. Accountants trained in these techniques receive specialized training that focuses on the cost impact of the activities of the business.

As with many organizations, professional certifications are highly valued in corporations. The primary certification for corporate accounting is the Certified Management Accountant (CMA). Because corporations also undertake financial reporting and related activities, such as tax compliance, corporations often hire CPAs.

Governmental Entities

Accountants in governmental entities perform many of the same functions as accountants in public accounting firms and corporations. The primary goal of **governmental accounting** is to ensure proper tracking of the inflows and outflows of taxpayer funds using the proscribed standards. Some governmental accountants also prepare and may also audit the work of other governmental agencies to ensure the funds are properly accounted for. The major difference between accountants in governmental entities and accountants working in public accounting firms and corporations relates to the specific rules by which the financial reporting must be prepared. Whereas as accountants in public accounting firms and corporations use GAAP, governmental accounting is prepared under a different set of rules that are specific to governmental agencies, as previously referred to as the Governmental Accounting Standards Board (GASB). Students continuing their study of accounting may take specific courses related to governmental accounting.

Accountants in the governmental sector may also work in specialized areas. For example, many accountants work for tax agencies at the federal, state, and local levels to ensure the tax returns prepared by businesses and individuals comply with the tax code appropriate for the particular jurisdiction. As another example, accountants employed by the SEC may investigate instances where financial crimes occur, as in the case of Bernie Madoff, which was discussed in Concepts in Practice: Financial Professionals and Fraud.

CONCEPTS IN PRACTICE

Bringing Down Capone

Al Capone was one of the most notorious criminals in American history. Born in 1899 in Brooklyn, New York, Al Capone rose to fame as a gangster in Chicago during the era of Prohibition. By the late 1920s–1930s, Capone controlled a syndicate with a reported annual income of $100 million.

Al Capone was credited for many murders, including masterminding the famous 1929 St. Valentine's Day murder, which killed seven rival gang members. But law enforcement was unable to convict Capone for the murders he committed or orchestrated. Through bribes and extortion, Capone was able to evade severe punishment, being charged at one point with gun possession and serving a year in jail.

Capone's luck ran out in 1931 when he was convicted of federal tax evasion. In 1927, the United States Supreme Court ruled that earnings from illegal activities were taxable. Capone, however, did not claim the illegal earnings on his 1928 and 1929 income tax returns and was subsequently sentenced to eleven years in prison. Up to that point, it was the longest-ever sentence for tax evasion.

Al Capone was paroled from prison in November 1939 and died on January 25, 1947. His life has been the subject of many articles, books, movies including *Scarface* (1932), and the TV series *The Untouchables* (1993).

Those interested in stories like this might consider working for the Federal Bureau of Investigation (FBI). According to the FBI, as of 2012, approximately 15% of FBI agents are special agent accountants.

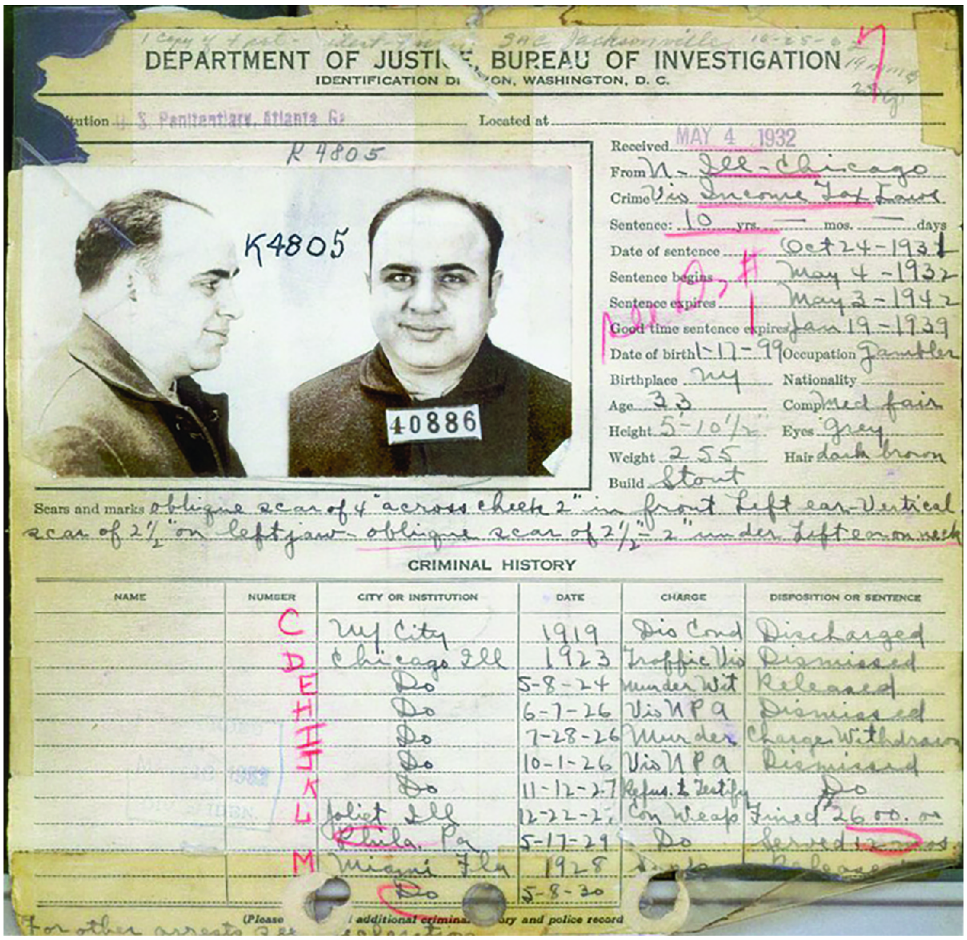


Figure 1.11 Al Capone. The FBI's 1932 criminal record on Al Capone shows the many charges against him, most of which were dismissed. (credit: modification of "Capone's criminal record in 1932" by FBI/United States Bureau of Prisons/Wikimedia Commons, Public Domain)

Not-for-Profit Entities, Including Charities, Foundations, and Universities

Not-for-profit entities include charitable organizations, foundations, and universities. Unlike for-profit entities, not-for-profit organizations have a primary focus of a particular mission. Therefore, **not-for-profit (NFP) accounting** helps ensure that donor funds are used for the intended mission. Much like accountants in governmental entities, accountants in not-for-profit entities use a slightly different type of accounting than other types of businesses, with the primary difference being that not-for-profit entities typically do not pay income taxes.

However, even if a not-for-profit organization is not subjected to income taxes in a particular year, it generally must file informational returns, such as a Form 990, with the Internal Revenue Service (IRS). Information, such as sources and amounts of funding and major types and amounts of expenditures, is documented by the not-for-profit entities to provide information for potential and current donors. Once filed with the IRS, Form 990 is available for public view so that the public can monitor how the specific charity uses proceeds as well as its operational efficiency.

Potential Certifications for Accountants

As previously discussed, the study of accounting serves as a foundation for other careers that are similar to accounting, and the certifications described here reflect that relationship.

There are many benefits to attaining a professional certification (or multiple certifications) in addition to a college degree. Certifications often cover material at a deeper and more complex level than might typically be covered in a college program. Those earning a professional certification demonstrate their willingness to invest the additional time and energy into becoming experts in the particular field. Because of this, employees with professional certifications are often in higher demand and earn higher salaries than those without professional certifications. Companies also benefit by having employees with professional certifications. A well-trained staff with demonstrated expertise conveys a level of professionalism that gives the organization a competitive advantage. In addition, professional certifications often require a certain number of hours of ongoing training. This helps ensure that the certificate holder remains informed as to the current advances within the profession and benefits both the employee and the employer.

Certifications are developed and governed by the respective governing body. Each issuing body establishes areas of content and requirements for the specific certification. Links to the particular websites are provided so you can easily gain additional information.

It is also important to note that many of the certifications have review courses available. The review courses help students prepare for the exam by offering test-taking strategies, practice questions and exams, and other materials that help students efficiently and effectively prepare for the exams.

ETHICAL CONSIDERATIONS

Accounting Codes of Ethics

In the United States, accountants can obtain a number of different certifications and can be licensed by each state to practice as a Certified Public Accountant (CPA). Accountants can also belong to professional organizations that have their own codes of conduct. As the online Stanford Encyclopedia of Philosophy explains, “many people engaged in business activity, including accountants and lawyers, are professionals. As such, they are bound by codes of conduct promulgated by professional societies. Many firms also have detailed codes of conduct, developed and enforced by teams of ethics and compliance personnel.”[8] CPAs can find a code of ethics in each state of practice and with the AICPA.[9] Certifications such as the CMA, CIA, CFE, CFA, and CFP each have their own codes of ethics.

To facilitate cross-border business activities and accounting, an attempt has been made to set international standards. To this end, accounting standards organizations in more than 100 countries use the International Federation of Accountants’ (IFAC) Code of Ethics for Professional Accountants.”[10] When auditing a public company, CPAs may also have to follow a special code of ethics created by the Public Company Accounting Oversight Board (PCAOB), or when performing federal tax work, the US Treasury Department’s Circular No. 230 code of ethics. These are just some examples of ethical codes that are covered in more detail in this course. Each area of accounting work has its own set of ethical rules, but they all require that a professional accountant perform his or her work with integrity.

Certified Public Accountant (CPA)

The Certified Public Accountant (CPA) designation is earned after passing a uniform exam issued by the American Institute of Certified Public Accountants (AICPA). While the exam is a uniform, nationally administered exam, each state issues and governs CPA licenses.

The CPA exam has four parts: Auditing and Attestation (AUD), Business Environment and Concepts (BEC), Financial Accounting and Reporting (FAR), and Regulation (REG). A score of at least 75% must be earned in order to earn the CPA designation.

Since each state determines the requirements for CPA licenses, students are encouraged to check the state board of accountancy for specific requirements. In Ohio, for example, candidates for the CPA exam must have 150 hours of college credit. Of those, thirty semester hours (or equivalent quarter hours) must be in accounting. Once the CPA designation is earned in Ohio, 120 hours of continuing education must be taken over a three-year period in order to maintain the certification. The requirements for the Ohio

CPA exam are similar to the requirements for other states. Even though states issue CPA licenses, a CPA will not lose the designation should he or she move to another state. Each state has mobility or reciprocity requirements that allow CPAs to transfer licensure from one state to another. Reciprocity requirements can be obtained by contacting the respective state board of accountancy.

The majority of states require 150 hours of college credit. Students often graduate with a bachelor's degree with approximately 120–130 credit hours. In order to reach the 150-hour requirement that specific states have, students have a couple of options. The extra hours can be earned either by taking additional classes in their undergraduate program or by entering a graduate program, earning a master's degree. Master's degrees that would be most beneficial in an accounting or related field would be a master of accountancy, master in taxation, or a master in analytics, which is rapidly increasing in demand.

LINK TO LEARNING

Information about the Certified Public Accountant (CPA) exam is provided by the following:

- the American Institute of Certified Public Accountants (AICPA)
- the National Association of State Boards of Accountancy (NASBA)
- This Way to CPA

Certified Management Accountant (CMA)

The Certified Management Accountant (CMA) exam is developed and administered by the Institute of Management Accountants (IMA). There are many benefits in earning the CMA designation, including career advancement and earnings potential. Management accountants, among other activities, prepare budgets, perform analysis of financial and operational variances, and determine the cost of providing goods and services. Earning a certification enables the management accountant to advance to management and executive positions within the organization.

The CMA exam has two parts: Financial Reporting, Planning, Performance, and Control (part 1) and Financial Decision-Making (part 2). A score of at least 72% must be earned in order to earn the CMA designation. A minimum of a bachelor's degree is required to take the CMA exam. An accounting degree or a specific number of credit hours in accounting is not required in order to take the CMA exam. Once the CMA designation is earned, thirty hours of continuing education with two of the hours focusing on ethics must be taken annually in order to maintain the certification.

LINK TO LEARNING

Visit the Institute of Management Accountants (IMA)'s page on the Certified Management Accountant (CMA) exam and certification to learn more.

Certified Internal Auditor (CIA)

The Certified Internal Auditor (CIA) exam is developed and administered by the Institute of Internal Auditors (IIA). According to the IIA website, the four-part CIA exam tests "candidates' grasp of internal auditing's role in governance, risk, and control; conducting an audit engagement; business analysis and information technology; and business management skills."[11]

If a candidate does not have a bachelor's degree, eligibility to take the CIA is based on a combination of work experience and education experience. In order to earn the CIA designation, a passing score of 80% is required. After successful passage of the CIA exam, certificate holders are required to earn eighty hours of continuing education credit every two years.[12]

LINK TO LEARNING

Information about the Certified Internal Auditor (CIA) exam is provided by the following:

- the Institute of Internal Auditors (IIA), Global
- the Institute of Internal Auditors (IIA), North America

Certified Fraud Examiner (CFE)

The Certified Fraud Examiner (CFE) exam is developed and administered by the Association of Certified Fraud Examiners (ACFE). Eligibility to take the CFE is based on a points system based on education and work experience. Candidates with forty points may take the CFE exam, and official certification is earned with fifty points or more. A bachelor's degree, for example, is worth forty points toward eligibility of the fifty-point requirement for the CFE certification. The CFE offers an attractive supplement for students interested in pursuing a career in accounting fraud detection. Students might also consider studying forensic accounting in college. These courses are often offered at the graduate level.

The CFE exam has four parts: Fraud Prevention and Deterrence, Financial Transactions and Fraud Schemes, Investigation, and Law. Candidates must earn a minimum score of 75%. Once the CFE is earned, certificate holders must annually complete at least twenty hours of continuing education. The CFE certification is valued in many organizations, including governmental agencies at the local, state, and federal levels.

LINK TO LEARNING

Visit the Association of Certified Fraud Examiners (ACFE) page on the Certified Fraud Examiner (CFE) exam to learn more.

Chartered Financial Analyst (CFA)

The Chartered Financial Analyst (CFA) certification is developed and administered by the CFA Institute. The CFA exam contains three levels (level I, level II, and level III), testing expertise in Investment Tools, Asset Classes, and Portfolio Management. Those with a bachelor's degree are eligible to take the CFA exam. In lieu of a bachelor's degree, work experience or a combination of work experience and education is considered satisfactory for eligibility to take the CFA exam. After taking the exam, candidates receive a "Pass" or "Did Not Pass" result. A passing score is determined by the CFA Institute once the examination has been administered. The passing score threshold is established after considering factors such as exam content and current best practices. After successful passage of all three levels of the CFA examination, chartered members must earn at least twenty hours annually of continuing education, of which two hours must be in Standards, Ethics, and Regulations (SER).

LINK TO LEARNING

Visit the the CFA Institute's page on the Chartered Financial Analyst (CFA) exam to learn more.

Certified Financial Planner (CFP)

The Certified Financial Planner (CFP) certification is developed and administered by the Certified Financial Planner (CFP) Board of Standards. The CFP exam consists of 170 multiple-choice questions that are taken over two, three-hour sessions. There are several ways in which the eligibility requirements can be met in order to take the CFP exam, which students can explore using the CFP Board of Standards website. As with the Chartered Financial Analyst (CFA) exam, the CFP Board of Standards does not predetermine a passing score but establishes the pass/fail threshold through a deliberative evaluation process. Upon successful completion of the exam, CFPs must obtain thirty hours of continuing education every two years, with two of the hours focused on ethics.

LINK TO LEARNING

Visit the Certified Financial Planners (CFP) Board of Standards page on the the Certified Financial Planner (CFP) examto learn more.

Footnotes

- 4 The Association of Chartered Certified Accountants (ACCA) and The Association of Accountants and Financial Professionals in Business (IMA). "100 Drivers of Change for the Global Accountancy Profession." September 2012. https://www.imanet.org/insights-and-...ession?ssopc=1
- 5 Lauren Csorny. "Careers in the Growing Field of Information Technology Services." Bureau of Labor Statistics/U.S. Department of Labor. April 2013. https://www.bls.gov/opub/btn/volume-...y-services.htm
- 6 "7-Eleven." Entrepreneur.com. n.d. https://www.entrepreneur.com/franchi...evenincs/282052
- 7 "2017 Top 100 Firms." *Accounting Today*. 2017. https://lscpagepro.mydigitalpublicat...,%22page%22:0}
- 8 Jeffrey Moriarty. "Business Ethics." Stanford Encyclopedia of Philosophy. November 17, 2016. https://plato.stanford.edu/entries/ethics-business/
- 9 American Institute of Certified Public Accountants (AICPA). "AICPA Code of Professional Conduct." n.d. https://www.aicpa.org/research/stand...ofconduct.html
- 10 Catherine Allen and Robert Bunting. "A Global Standard for Professional Ethics: Cross-Border Business Concerns." May 2008. www.ifrs.com/overview/Accoun..._Standard.html
- 11 The Institute of Internal Auditors. "What Does It Take to Be a Professional?" n.d. https://na.theiia.org/about-ia/Publi...sional-WEB.pdf

- 12 The Institute of Internal Auditors. “What Does It Take to Be a Professional?” n.d. https://na.theiia.org/about-ia/Publi...sional-WEB.pdf

5.5: Describe the Income Statement, Statement of Owner's Equity, Balance Sheet, and Statement of Cash Flows, and How They Interrelate

The study of accounting requires an understanding of precise and sometimes complicated terminology, purposes, principles, concepts, and organizational and legal structures. Typically, your introductory accounting courses will familiarize you with the overall accounting environment, and for those of you who want greater detail, there is an assortment of more advanced accounting courses available.

This chapter concentrates on the four major types of financial statements and their interactions, the major types of business structures, and some of the major terms and concepts used in this course. Coverage here is somewhat basic since these topics are accorded much greater detail in future chapters.

Types of Business Structure

As you learned in Role of Accounting in Society, virtually every activity that occurs in a business has an associated cost or value. Part of an accountant's role is to quantify these activities, or transactions.

Also, in business—and accounting in particular—it is necessary to distinguish the business entity from the individual owner(s). The personal transactions of the owners, employees, and other parties connected to the business should not be recorded in the organization's records; this accounting principle is called the *business entity concept*. Accountants should record only business transactions in business records.

This separation is also reflected in the legal structure of the business. There are several common types of legal business structures. While the accounting concepts for the various types of businesses are essentially the same regardless of the legal structure, the terminology will change slightly depending on the organization's legal structure, and it is important to understand the differences.

There are three broad categories for the legal structure of an organization: sole proprietorship, partnership, and corporation. A **sole proprietorship** is a legal business structure consisting of a single individual. Benefits of this type of structure include ease of formation, favorable tax treatment, and a high level of control over the business. The risks involved with sole proprietorships include unlimited personal liability and a limited life for the business. Unless the business is sold, the business ends when the owner retires or passes away. In addition, sole proprietorships have a fairly limited ability to raise capital (funding), and often sole proprietors have limited expertise—they are excellent at what they do but may have limited expertise in other important areas of business, such as accounting or marketing.

A **partnership** is a legal business structure consisting of an association of two or more people who contribute money, property, or services to operate as co-owners of a business. Benefits of this type of structure include favorable tax treatment, ease of formation of the business, and better access to capital and expertise. The downsides to a partnership include unlimited personal liability (although there are other legal structures—a limited liability partnership, for example—to help mitigate the risk); limited life of the partnership, similar to sole proprietorships; and increased complexity to form the venture (decision-making authority, profit-sharing arrangement, and other important issues need to be formally articulated in a written partnership agreement).

A **corporation** is a legal business structure involving one or more individuals (owners) who are legally distinct (separate) from the business. A primary benefit of a corporate legal structure is the owners of the organization have limited liability. That is, a corporation is "stand alone," conducting business as an entity separate from its owners. Under the corporate structure, owners delegate to others (called agents) the responsibility to make day-to-day decisions regarding the operations of the business. Other benefits of the corporate legal structure include relatively easy access to large amounts of capital by obtaining loans or selling ownership (stock), and since the stock is easily sold or transferred to others, the business operates beyond the life of the shareholders. A major disadvantage of a corporate legal structure is double taxation—the business pays income tax and the owners are taxed when distributions (also called dividends) are received.

Table 2.1: Types of Business Structures

	Sole Proprietorship	Partnership	Corporation
Number of Owners	Single individual	Two or more individuals	One or more owners
Ease of Formation	Easier to form	Harder to form	Difficult to form
Ability to Raise Capital	Difficult to raise capital	Harder to raise capital	Easier to raise capital

	Sole Proprietorship	Partnership	Corporation
Liability Risk	Unlimited liability	Unlimited liability	Limited liability
Taxation Consideration	Single taxation	Single taxation	Double taxation

The Four Financial Statements

Are you a fan of books, movies, or sports? If so, chances are you have heard or said the phrase “spoiler alert.” It is used to forewarn readers, viewers, or fans that the ending of a movie or book or outcome of a game is about to be revealed. Some people prefer knowing the end and skipping all of the details in the middle, while others prefer to fully immerse themselves and then discover the outcome. People often do not know or understand what accountants produce or provide. That is, they are not familiar with the “ending” of the accounting process, but that is the best place to begin the study of accounting.

Accountants create what are known as financial statements. Financial statements are reports that communicate the financial performance and financial position of the organization.

In essence, the overall purpose of financial statements is to evaluate the performance of a company, governmental entity, or not-for-profit entity. This chapter illustrates this through a company, which is considered to be in business to generate a profit. Each financial statement we examine has a unique function, and together they provide information to determine whether a company generated a profit or loss for a given period (such as a month, quarter, or year); the assets, which are resources of the company, and accompanying liabilities, which are obligations of the company, that are used to generate the profit or loss; owner interest in profits or losses; and the cash position of the company at the end of the period.

The four financial statements that perform these functions and the order in which we prepare them are:

1. Income Statement
2. Statement of Owner’s Equity
3. Balance Sheet
4. Statement of Cash Flows.

The order of preparation is important as it relates to the concept of how financial statements are interrelated. Before explaining each in detail, let’s explore the purpose of each financial statement and its main components.

CONTINUING APPLICATION

Introduction to the Gearhead Outfitters Story

Gearhead Outfitters, founded by Ted Herget in 1997 in Jonesboro, Arkansas, is a retail chain that sells outdoor gear for men, women, and children. The company’s inventory includes clothing, footwear for hiking and running, camping gear, backpacks, and accessories, by brands such as **The North Face**, **Birkenstock**, **Wolverine**, **Yeti**, **Altra**, **Mizuno**, and **Patagonia**. Herget fell in love with the outdoor lifestyle while working as a ski instructor in Colorado and wanted to bring that feeling back home to Arkansas. And so, **Gearhead** was born in a small downtown location in Jonesboro. The company has had great success over the years, expanding to numerous locations in Herget’s home state, as well as Louisiana, Oklahoma, and Missouri.

While Herget knew his industry when starting **Gearhead**, like many entrepreneurs he faced regulatory and financial issues that were new to him. Several of these issues were related to accounting and the wealth of decision-making information that accounting systems provide.

For example, measuring revenue and expenses, providing information about cash flow to potential lenders, analyzing whether profit and positive cash flow is sustainable to allow for expansion, and managing inventory levels. Accounting, or the preparation of financial statements (balance sheet, income statement, and statement of cash flows), provides the mechanism for business owners such as Herget to make fundamentally sound business decisions.

Purpose of Financial Statements

Before exploring the specific financial statements, it is important to know why these are important documents. To understand this, you must first understand who the users of financial statements are. Users of the information found in financial statements are called stakeholders. A **stakeholder** is someone affected by decisions made by a company; this can include groups or individuals affected by the actions or policies of an organization, including include investors, creditors, employees, managers, regulators, customers, and suppliers. The stakeholder's interest sometimes is not directly related to the entity's financial performance. Examples of stakeholders include lenders, investors/owners, vendors, employees and management, governmental agencies, and the communities in which the businesses operate. Stakeholders are interested in the performance of an organization for various reasons, but the common goal of using the financial statements is to understand the information each contains that is useful for making financial decisions. For example, a banker may be interested in the financial statements to decide whether or not to lend the organization money.

Likewise, small business owners may make decisions based on their familiarity with the business—they know if the business is doing well or not based on their "gut feeling." By preparing the financial statements, accountants can help owners by providing clarity of the organization's financial performance. It is important to understand that, in the long term, every activity of the business has a financial impact, and financial statements are a way that accountants report the activities of the business. Stakeholders must make many decisions, and the financial statements provide information that is helpful in the decision-making process.

As described in Role of Accounting in Society, the complete set of financial statements acts as an X-ray of a company's financial health. By evaluating all of the financial statements together, someone with financial knowledge can determine the overall health of a company. The accountant can use this information to advise outside (and inside) stakeholders on decisions, and management can use this information as one tool to make strategic short- and long-term decisions.

ETHICAL CONSIDERATIONS

Utilitarian View of Accounting Decisions and Stakeholder Well-Being

Utilitarianism is a well-known and influential moral theory commonly used as a framework to evaluate business decisions. Utilitarianism suggests that an ethical action is one whose consequence achieves the greatest good for the greatest number of people. So, if we want to make an ethical decision, we should ask ourselves who is helped and who is harmed by it. Focusing on consequences in this way generally does not require us to take into account the means of achieving that particular end, however. Put simply, the utilitarian view is an ethical theory that the best action of a company is the one that maximizes utility of all stakeholders to the decision. This view assumes that all individuals with an interest in the business are considered within the decision.

Financial statements are used to understand the financial performance of companies and to make long- and short-term decisions. A utilitarian approach considers all stakeholders, and both the long- and short-term effects of a business decision. This allows corporate decision makers to choose business actions with the potential to produce the best outcomes for the majority of all stakeholders, not just shareholders, and therefore maximize stakeholder happiness.

Accounting decisions can change the approach a stakeholder has in relation to a business. If a company focuses on modifying operations and financial reporting to maximize short-term shareholder value, this could indicate the prioritization of certain stakeholder interests above others. When a company pursues only short-term profit for shareholders, it neglects the well-being of other stakeholders. Professional accountants should be aware of the interdependent relationship between all stakeholders and consider whether the results of their decisions are good for the majority of stakeholder interests.

YOUR TURN

Business Owners as Decision Makers

Think of a business owner in your family or community. Schedule some time to talk with the business owner, and find out how he or she uses financial information to make decisions.

Solution

Business owners will use financial information for many decisions, such as comparing sales from one period to another, determining trends in costs and other expenses, and identifying areas in which to reduce or reallocate expenses. This information will be used to determine, for example, staffing and inventory levels, streamlining of operations, and advertising or other investment decisions.

The Income Statement

The first financial statement prepared is the **income statement**, a statement that shows the organization's financial performance *for a given period of time*. Let's illustrate the purpose of an income statement using a real-life example. Assume your friend, Chris, who is a sole proprietor, started a summer landscaping business on August 1, 2020. It is categorized as a service entity. To keep this example simple, assume that she is using her family's tractor, and we are using the *cash basis* method of accounting to demonstrate Chris's initial operations for her business. The other available basis method that is commonly used in accounting is the *accrual basis* method. She is responsible for paying for fuel and any maintenance costs. She named the business Chris' Landscaping. On August 31, Chris checked the account balance and noticed there is only $250 in the checking account. This balance is lower than expected because she thought she had been paid by some customers. Chris decides to do some research to determine why the balance in the checking account is lower than expected. Her research shows that she earned a total of $1,400 from her customers but had to pay $100 to fix the brakes on her tractor, $50 for fuel, and also made a $1,000 payment to the insurance company for business insurance. The reason for the lower-than-expected balance was due to the fact that she spent ($1,150 for brakes, fuel, and insurance) only slightly less than she earned ($1,400)—a net increase of $250. While she would like the checking balance to grow each month, she realizes most of the August expenses were infrequent (brakes and insurance) and the insurance, in particular, was an unusually large expense. She is convinced the checking account balance will likely grow more in September because she will earn money from some new customers; she also anticipates having fewer expenses.

CHRIS' LANDSCAPING Income Statement For the Month Ended August 31, 2020		
Revenue	$1,400	
Total revenue		$1,400
Expenses		
Tractor brake repair	100	
Tractor fuel	50	
Business insurance	1,000	
Total expenses		1,150
Net income		$ 250

The Income Statement can also be visualized by the formula: Revenue – Expenses = Net Income/(Loss).

Let's change this example slightly and assume the $1,000 payment to the insurance company will be paid in September, rather than in August. In this case, the ending balance in Chris's checking account would be $1,250, a result of earning $1,400 and only spending $100 for the brakes on her car and $50 for fuel. This stream of cash flows is an example of cash basis accounting because it reflects when payments are received and made, not necessarily the time period that they affect. At the end of this section and in The Adjustment Process you will address accrual accounting, which does reflect the time period that they affect.

In accounting, this example illustrates an income statement, a financial statement that is used to measure the financial performance of an organization for a particular period of time. We use the simple landscaping account example to discuss the elements of the income statement, which are revenues, expenses, gains, and losses. Together, these determine whether the organization has net income (where revenues and gains are greater than expenses and losses) or net loss (where expenses and losses are greater than revenues and gains). Revenues, expenses, gains, and losses are further defined here.

Revenue

Revenue[1] is the value of goods and services the organization sold or provided to customers for a given period of time. In our current example, Chris's landscaping business, the "revenue" earned for the month of August would be $1,400. It is the value Chris received in exchange for the services provided to her clients. Likewise, when a business provides goods or services to customers for cash at the time of the service or in the future, the business classifies the amount(s) as revenue. Just as the $1,400 earned from a business made Chris's checking account balance increase, revenues increase the value of a business. In accounting, revenues are often also called sales or fees earned. Just as earning wages from a business or summer job reflects the number of hours worked for a given rate of pay or payments from clients for services rendered, revenues (and the other terms) are used to indicate the dollar value of goods and services provided to customers for a given period of time.

YOUR TURN

Coffee Shop Products

Think about the coffee shop in your area. Identify items the coffee shop sells that would be classified as revenues. Remember, revenues for the coffee shop are related to its primary purpose: selling coffee and related items. Or, better yet, make a trip to the local coffee shop and get a first-hand experience.

Solution

Many coffee shops earn revenue through multiple revenue streams, including coffee and other specialty drinks, food items, gift cards, and merchandise.

Expenses

An **expense**[2] is a cost associated with providing goods or services to customers. In our opening example, the expenses that Chris incurred totaled $1,150 (consisting of $100 for brakes, $50 for fuel, and $1,000 for insurance). You might think of expenses as the opposite of revenue in that expenses reduce Chris's checking account balance. Likewise, expenses decrease the value of the business and represent the dollar value of costs incurred to provide goods and services to customers for a given period of time.

YOUR TURN

Coffee Shop Expenses

While thinking about or visiting the coffee shop in your area, look around (or visualize) and identify items or activities that are the expenses of the coffee shop. Remember, expenses for the coffee shop are related to resources consumed while generating revenue from selling coffee and related items. Do not forget about any expenses that might not be so obvious—as a general rule, every activity in a business has an associated cost.

Solution

Costs of the coffee shop that might be readily observed would include rent; wages for the employees; and the cost of the coffee, pastries, and other items/merchandise that may be sold. In addition, costs such as utilities, equipment, and cleaning or other supplies might also be readily observable. More obscure costs of the coffee shop would include insurance, regulatory costs such as health department licensing, point-of-sale/credit card costs, advertising, donations, and payroll costs such as workers' compensation, unemployment, and so on.

Gains

A **gain**[3] can result from selling ancillary business items for more than the items are worth. (Ancillary business items are those that are used to support business operations.) To illustrate the concept of a gain, let's return to our example. However, this example and the accompanying *losses* example are not going to be part of our income statement, balance sheet, or owner's equity statement discussions. The gains and losses examples are only to be used in demonstrating the concepts of gains and losses. Assume that Chris paid $1,500 for a small piece of property to use for building a storage facility for her company. Further assume that Chris has an opportunity to sell the land for $2,000. She subsequently found a better storage option and decided to sell the property. After doing so, Chris will have a gain of $500 (a selling price of $2,000 and a cost of $1,500) and will also have $2,000 to deposit into her checking account, which would increase the balance.

Thinking back to the proceeds ($1,400) Chris received from her landscaping business, we might ask the question: how are gains similar to and different from revenues? The revenue of $1,400 that Chris earned from her business and the $2,000 she received from selling the land are similar in that both increase her checking account balance and make her business more valuable.

A difference, however, is evident if we consider how these funds were earned. Chris earned the $1,400 because she provided services (her labor) to her clients. Chris's primary objective is to earn revenue by working for her clients. In addition, earning money by selling her land was an infrequent event for Chris, since her primary job was serving as a landscaper. Her primary goal is to earn fees or revenue, not to earn money by selling land. In fact, she cannot consider doing that again because she does not have additional land to sell.

The primary goal of a business is to earn revenue by providing goods and services to customers in exchange for cash at that time or in the future. While selling other items for more than the value of the item does occur in business, these transactions are classified as gains, because these sales are infrequent and not the primary purpose of the business.

Losses

A **loss**[4] results from selling ancillary business items for less than the items are worth. To illustrate, let's now assume that Chris sells her land that she purchased for $1,500 at a sales price of $1,200. In this case she would realize (incur) a loss of $300 on the sale of the property ($1,200 sales price minus the $1,500 cost of purchasing the property) and will also have $1,200 to deposit into her checking account, which would increase the balance.

You should not be confused by the fact that the checking account balance increased even though this transaction resulted in a financial loss. Chris received $1,200 that she can deposit into her checking account and use for future expenses. The $300 loss simply indicates that she received less for the land than she paid for it. These are two aspects of the same transaction that communicate different things, and it is important to understand the differences.

As we saw when comparing gains and revenues, losses are similar to expenses in that both losses and expenses decrease the value of the organization. In addition, just as Chris's primary goal is to earn money from her job rather than selling land, in business, losses refer to infrequent transactions involving ancillary items of the business.

Net Income (Net Loss)

Net income (net loss) is determined by comparing revenues and expenses. **Net income** is a result of revenues (inflows) being greater than expenses (outflows). A **net loss** occurs when expenses (outflows) are greater than revenues (inflows). In accounting it is common to present net income in the following format:

Net Income
Revenue (sometimes called Sales or Fees Earned)
– Expenses
Operating Profit (or Net Loss)

Recall that revenue is the value of goods and services a business provides to its customers and increase the value of the business. Expenses, on the other hand, are the costs of providing the goods and services and decrease the value of the business. When revenues exceed expenses, companies have net income. This means the business has been successful at earning revenues, containing expenses, or a combination of both. If, on the other hand, expenses exceed revenues, companies experience a net loss. This means the business was unsuccessful in earning adequate revenues, sufficiently containing expenses, or a combination of both. While businesses work hard to avoid net loss situations, it is not uncommon for a company to sustain a net loss from time-to-time. It is difficult, however, for businesses to remain viable while experiencing net losses over the long term.

Shown as a formula, the net income (loss) function is:

Revenues (R) – Expenses (E) = Net Income (when R > E)
Revenues (R) – Expenses (E) = Net Loss (when E > R)

To be complete, we must also consider the impact of gains and losses. While gains and losses are infrequent in a business, it is not uncommon that a business would present a gain and/or loss in its financial statements. Recall that gains are similar to revenue and losses are similar to expenses. Therefore, the traditional accounting format would be:

Gains and Losses

Revenue (sometimes called Sales or Fees Earned)
+ Gains
– Expenses
– Losses
Net Income (or Net Loss)

Shown as a formula, the net income (loss) function, including gains and losses, is:

Revenues (R) + Gains (G) – Expenses (E) – Losses (L) = Net Income [when (R + G) > (E + L)]
Revenues (R) + Gains (G) – Expenses (E) – Losses (L) = Net Loss [when (E + L) > (R + G)]

When assessing a company's net income, it is important to understand the source of the net income. Businesses strive to attain "high-quality" net income (earnings). High-quality earnings are based on sustainable earnings—also called permanent earnings—while relying less on infrequent earnings—also called temporary earnings. Recall that revenues represent the *ongoing* value of goods and services the business provides (sells) to its customers, while gains are *infrequent* and involve items ancillary to the primary purpose of the business. We should use caution if a business attains a significant portion of its net income as a result of gains, rather than revenues. Likewise, net losses derived as a result of losses should be put into the proper perspective due to the infrequent nature of losses. While net losses are undesirable for any reason, net losses that result from expenses related to ongoing operations, rather than losses that are infrequent, are more concerning for the business.

Statement of Owner's Equity

Equity is a term that is often confusing but is a concept with which you are probably already familiar. In short, equity is the value of an item that remains after considering what is owed for that item. The following example may help illustrate the concept of equity.

When thinking about the concept of equity, it is often helpful to think about an example many families are familiar with: purchasing a home. Suppose a family purchases a home worth $200,000. After making a down payment of $25,000, they secure a bank loan to pay the remaining $175,000. What is the value of the family's equity in the home? If you answered $25,000, you are correct. At the time of the purchase, the family owns a home worth $200,000 (an asset), but they owe $175,000 (a liability), so the equity or net worth in the home is $25,000.

The **statement of owner's equity**, which is the second financial statement created by accountants, is a statement that shows how the equity (or value) of the organization has changed over time. Similar to the income statement, the statement of owner's equity is *for a specific period of time, typically one year.* Recall that another way to think about equity is net worth, or value. So, the statement of owner's equity is a financial statement that shows how the net worth, or value, of the business has changed for a given period of time.

CHRIS' LANDSCAPING
Statement of Owner's Equity
For the Month Ended August 31, 2020

Owner's equity, August 1	$ 0
+ Net income	250
	250
Owner's equity, August 31	$250

The elements of the financial statements shown on the statement of owner's equity include *investments by owners* as well as *distributions to owners*. Investments by owners and distributions to owners are two activities that impact the value of the organization (increase and decrease, respectively). In addition, net income or net loss affects the value of the organization (net income increases the value of the organization, and net loss decreases it). Net income (or net loss) is also shown on the statement of owner's equity; this is an example of how the statements are interrelated. Note that the word *owner's* (singular for a sole owner) changes to *owners'* (plural, for a group of owners) when preparing this statement for an entity with multiple owners versus a sole proprietorship.

In our example, to make it less complicated, we started with the first month of operations for Chris's Landscaping. In the first month of operations, the owner's equity total begins the month of August 2020, at $0, since there have been no transactions. During the month, the business received revenue of $1,400 and incurred expenses of $1,150, for net income of $250. Since Chris did not contribute any investment or make any withdrawals, other than the $1,150 for expenses, the ending balance in the owner's equity account on August 31, 2020, would be $250, the net income earned.

At this stage, it's important to point out that we are working with a sole proprietorship to help simplify the examples. We have addressed the owner's value in the firm as *capital* or *owner's equity*. However, later we switch the structure of the business to a corporation, and instead of owner's equity we begin using stockholder's equity, which includes account titles such as *common stock*and *retained earnings* to represent the owners' interests.

The corporate treatment is more complicated because corporations may have a few owners up to potentially thousands of owners (stockholders). More detail on this issue is provided in Define, Explain, and Provide Examples of Current and Noncurrent Assets, Current and Noncurrent Liabilities, Equity, Revenues, and Expenses.

Investments by Owners

Generally, there are two ways by which organizations become more valuable: profitable operations (when revenues exceed expenses) and investments by owners. Organizations often have long-term goals or projects that are very expensive (for example, building a new manufacturing facility or purchasing another company).

While having profitable operations is a viable way to "fund" these goals and projects, organizations often want to undertake these projects in a quicker time frame. Selling ownership is one way to quickly obtain the funding necessary for these goals. **Investments by owners** represent an exchange of cash or other assets for which the investor is given an ownership interest in the organization. This is a mutually beneficial arrangement: the organization gets the funding it needs on a timely basis, and the investor gets an ownership interest in the organization.

When organizations generate funding by selling ownership, the ownership interest usually takes the form of **common stock**, which is the corporation's primary class of stock issued, with each share representing a partial claim to ownership or a share of the company's business. When the organization issues common stock for the first time, it is called an **initial public offering (IPO)**. In

Corporation Accounting, you learn more about the specifics of this type of accounting. Once a company issues (or sells) common stock after an IPO, we describe the company as a **publicly traded company**, which simply means the company's stock can be purchased by the general public on a public exchange like the New York Stock Exchange (NYSE). That is, investors can become owners of the particular company. Companies that issue publicly traded common shares in the United States are regulated by the **Securities and Exchange Commission (SEC)**, a federal regulatory agency that, among other responsibilities, is charged with oversight of financial investments such as common stock.

CONCEPTS IN PRACTICE

Roku Goes Public

On September 1, 2017, **Roku, Inc.** filed a Form S-1 with the Securities and Exchange Commission (SEC).[5] In this form, **Roku** disclosed its intention to become a publicly traded company, meaning its stock will trade (sell) on public stock exchanges, allowing individual and institutional investors an opportunity to own a portion (shares) of the company. The Form S-1 included detailed financial and nonfinancial information about the company. The information from **Roku** also included the purpose of the offering as well as the intended uses of the funds. Here is a portion of the disclosure: "The principal purposes of this offering are to increase our capitalization and financial flexibility and create a public market for our Class A common stock. We intend to use the net proceeds we receive from this offering primarily for general corporate purposes, including working capital . . . research and development, business development, sales and marketing activities and capital expenditures."[6]

On September 28, 2017, **Roku** "went public" and exceeded expectations. Prior to the IPO, **Roku** estimated it would sell between $12 and $14 per share, raising over $117 million for the company. The closing price per share on September 28 was $23.50, nearly doubling initial expectations for the share value.[7]

Distributions to Owners

There are basically two ways in which organizations become less valuable in terms of owners' equity: from unprofitable operations (when expenses or losses exceed revenues or gains) and by distributions to owners. Owners (investors) of an organization want to see their investment appreciate (gain) in value. Over time, owners of common stock can see the value of the stock increase in value —the share price increases—due to the success of the organization. Organizations may also make **distributions to owners**, which are periodic rewards issued to the owners in the form of cash or other assets. Distributions to owners represent some of the value (equity) of the organization.

For investors who hold common stock in the organization, these periodic payments or distributions to owners are called **dividends**. For sole proprietorships, distributions to owners are withdrawals or drawings. From the organization's perspective, dividends represent a portion of the net worth (equity) of the organization that is returned to owners as a reward for their investment. While issuing dividends does, in fact, reduce the organization's assets, some argue that paying dividends increases the organization's long-term value by making the stock more desirable. (Note that this topic falls under the category of "dividend policy" and there is a significant stream of research addressing this.)

Balance Sheet

Once the statement of owner's equity is completed, accountants typically complete the **balance sheet**, a statement that lists what the organization owns (*assets*), what it owes (*liabilities*), and what it is worth (*equity*) on a *specific date*. Notice the change in timing of the report. The income statement and statement of owner's equity report the financial performance and equity change for a period of time. The balance sheet, however, lists the financial position at the close of business on a specific date. (Refer to Figure 2.2 for the balance sheet as of August 31, 2020, for Chris' Landscaping.)

CHRIS' LANDSCAPING Balance Sheet August 31, 2020	
Assets	
Cash	$250
Liabilities	
None	0
Owner's Equity	
Owner's Equity	$250

Figure 2.2 "Balance Sheet for Chris' Landscaping." (attribution: Copyright, Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

Assets

If you recall our previous example involving Chris and her newly established landscaping business, you are probably already familiar with the term **asset**[8]—these are resources used to generate revenue. In Chris's business, to keep the example relatively simple, the business ended the month with one asset, cash, assuming that the insurance was for one month's coverage.

However, as organizations become more complex, they often have dozens or more types of assets. An asset can be categorized as a **short-term asset** or current asset (which is typically used up, sold, or converted to cash in one year or less) or as a **long-term asset** or noncurrent asset (which is not expected to be converted into cash or used up within one year). Long-term assets are often used in the production of products and services.

Examples of short-term assets that businesses own include cash, accounts receivable, and inventory, while examples of long-term assets include land, machinery, office furniture, buildings, and vehicles. Several of the chapters that you will study are dedicated to an in-depth coverage of the special characteristics of selected assets. Examples include Merchandising Transactions, which are typically short term, and Long-Term Assets, which are typically long term.

An asset can also be categorized as a tangible asset or an intangible asset. **Tangible assets** have a physical nature, such as trucks or many inventory items, while **intangible assets** have value but often lack a physical existence or corpus, such as insurance policies or trademarks.

Liabilities

You are also probably already familiar with the term **liability**[9]—these are amounts owed to others (called creditors). A liability can also be categorized as a **short-term liability** (or current liability) or a **long-term liability** (or noncurrent liability), similar to the treatment accorded assets. Short-term liabilities are typically expected to be paid within one year or less, while long-term liabilities are typically expected to be due for payment more than one year past the current balance sheet date.

Common short-term liabilities or amounts owed by businesses include amounts owed for items purchased on credit (also called *accounts payable*), taxes, wages, and other business costs that will be paid in the future. Long-term liabilities can include such liabilities as long-term notes payable, mortgages payable, or bonds payable.

Equity

In the Statement of Owner's Equity discussion, you learned that **equity** (or net assets) refers to book value or net worth. In our example, Chris's Landscaping, we determined that Chris had $250 worth of equity in her company at the end of the first month (see Figure 2.2).

At any point in time it is important for stakeholders to know the financial position of a business. Stated differently, it is important for employees, managers, and other interested parties to understand what a business owns, owes, and is worth at any given point. This provides stakeholders with valuable financial information to make decisions related to the business.

Statement of Cash Flows

The fourth and final financial statement prepared is the **statement of cash flows**, which is a statement that lists the cash inflows and cash outflows for the business *for a period of time.* At first glance, this may seem like a redundant financial statement. We know the income statement also reports the inflows and outflows for the business for a period of time. In addition, the statement of owner's equity and the balance sheet help to show the other activities, such as investments by and distributions to owners that are not included in the income statement. To understand why the statement of cash flows is necessary, we must first understand the two bases of accounting used to prepare the financial statements. The changes in cash within this statement are often referred to as sources and uses of cash. A source of cash lets one see where cash is coming from. For example, is cash being generated from sales to customers, or is the cash a result of an advance in a large loan. Use of cash looks at what cash is being used for. Is cash being used to make an interest payment on a loan, or is cash being used to purchase a large piece of machinery that will expand business capacity? The two bases of accounting are the cash basis and the accrual basis, briefly introduced in Describe the Income Statement, Statement of Owner's Equity, Balance Sheet, and Statement of Cash Flows, and How They Interrelate.

Under **cash basis accounting**, transactions (i.e., a sale or a purchase) are not recorded in the financial statements until there is an exchange of cash. This type of accounting is permitted for nonprofit entities and small businesses that elect to use this type of accounting. Under **accrual basis accounting**, transactions are generally recorded in the financial statement when the transactions occur, and not when paid, although in some situations the two events could happen on the same day.

An example of the two methods (cash versus accrual accounting) would probably help clarify their differences. Assume that a mechanic performs a tune-up on a client's car on May 29, and the customer picks up her car and pays the mechanic $100 on June 2. If the mechanic were using the cash method, the revenue would be recognized on June 2, the date of payment, and any expenses would be recognized when paid.

If the accrual method were used, the mechanic would recognize the revenue and any related expenses on May 29, the day the work was completed. The accrual method will be the basis for your studies here (except for our coverage of the cash flow statement in Statement of Cash Flows). The accrual method is also discussed in greater detail in Explain the Steps within the Accounting Cycle through the Unadjusted Trial Balance.

While the cash basis of accounting is suited well and is more efficient for small businesses and certain types of businesses, such as farming, and those without inventory, like lawyers and doctors, the accrual basis of accounting is theoretically preferable to the cash basis of accounting. Accrual accounting is advantageous because it distinguishes between the timing of the transactions (when goods and services are provided) and when the cash involved in the transactions is exchanged (which can be a significant amount of time after the initial transaction). This allows accountants to provide, in a timely manner, relevant and complete information to stakeholders. The Adjustment Process explores several common techniques involved in accrual accounting.

Two brief examples may help illustrate the difference between cash accounting and accrual accounting. Assume that a business sells $200 worth of merchandise. In some businesses, there are two ways the customers pay: cash and credit (also referred to as "on account"). Cash sales include checks and credit cards and are paid at the time of the sale. Credit sales (not to be confused with credit card sales) allow the customer to take the merchandise but pay within a specified period of time, usually up to forty-five days.

A cash sale would be recorded in the financial statements under *both* the cash basis and accrual basis of accounting. It makes sense because the customer received the merchandise and paid the business at the same time. It is considered two events that occur simultaneously (exchange of merchandise for cash).

Similar to the previous example for the mechanic, a credit sale, however, would be treated differently under each of these types of accounting. Under the cash basis of accounting, a credit sale would not be recorded in the financial statements until the cash is received, under terms stipulated by the seller. For example, assume on April 1 a landscaping business provides $500 worth of services to one of its customers. The sale is made on account, with the payment due forty-five days later. Under the cash basis of accounting, the revenue would not be recorded until May 16, when the cash was received. Under the accrual basis of accounting, this sale would be recorded in the financial statements at the time the services were provided, April 1. The reason the sale would be recorded is, under accrual accounting, the business reports that it provided $500 worth of services to its customer. The fact the customers will pay later is viewed as a separate transaction under accrual accounting (Figure 2.3).

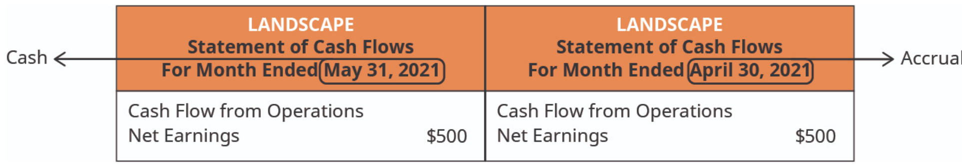


Figure 2.3Credit versus Cash. On the left is a credit sale recorded under the cash basis of accounting. On the right the same credit sale is recorded under the accrual basis of accounting. (attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

Let's now explore the difference between the cash basis and accrual basis of accounting using an expense. Assume a business purchases $160 worth of printing supplies from a supplier (vendor). Similar to a sale, a purchase of merchandise can be paid for at the time of sale using cash (also a check or credit card) or at a later date (on account). A purchase paid with cash at the time of the sale would be recorded in the financial statements under *both* cash basis and accrual basis of accounting. It makes sense because the business received the printing supplies from the supplier and paid the supplier at the same time. It is considered two events that occur simultaneously (exchange of merchandise for cash).

If the purchase was made on account (also called a *credit purchase*), however, the transaction would be recorded differently under each of these types of accounting. Under the cash basis of accounting, the $160 purchase on account would not be recorded in the financial statements until the cash is paid, as stipulated by the seller's terms. For example, if the printing supplies were received on July 17 and the payment terms were fifteen days, no transaction would be recorded until August 1, when the goods were paid for. Under the accrual basis of accounting, this purchase would be recorded in the financial statements at the time the business received the printing supplies from the supplier (July 17). The reason the purchase would be recorded is that the business reports that it bought $160 worth of printing supplies from its vendors. The fact the business will pay later is viewed as a separate issue under accrual accounting. Table 2.2 summarizes these examples under the different bases of accounting.

Transactions by Cash Basis versus Accrual Basis of Accounting

Transaction	Under Cash Basis Accounting	Under Accrual Basis Accounting
$200 sale for cash	Recorded in financial statements at time of sale	Recorded in financial statements at time of sale
$200 sale on account	*Not* recorded in financial statements until cash is received	Recorded in financial statements at time of sale
$160 purchase for cash	Recorded in financial statements at time of purchase	Recorded in financial statements at time of purchase
$160 purchase on account	*Not* recorded in financial statements until cash is paid	Recorded in financial statements at time of purchase

Table2.2 Businesses often sell items for cash as well as on account, where payment terms are extended for a period of time (for example, thirty to forty-five days). Likewise, businesses often purchase items from suppliers (also called vendors) for cash or, more likely, on account. Under the cash basis of accounting, these transactions would not be recorded until the cash is exchanged. In contrast, under accrual accounting the transactions are recorded when the transaction occurs, regardless of when the cash is received or paid.

Knowing the difference between the cash basis and accrual basis of accounting is necessary to understand the need for the statement of cash flows. Stakeholders need to know the financial *performance* (as measured by the income statement—that is, net income or net loss) and financial *position* (as measured by the balance sheet—that is, assets, liabilities, and owners' equity) of the business. This information is provided in the income statement, statement of owner's equity, and balance sheet. However, since these financial statements are prepared using accrual accounting, stakeholders do not have a clear picture of the business's cash activities. The statement of cash flows solves this inadequacy by specifically focusing on the cash inflows and cash outflows.

Footnotes

- 1 In a subsequent section of this chapter, you will learn that the accounting profession is governed by the Financial Accounting Standards Board (or FASB), a professional body that issues guidelines/pronouncements for the accounting profession. A set of theoretical pronouncements issued by FASB is called Statement of Financial Accounting Concepts (SFAC). In SFAC No. 6, FASB defines revenues as “inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity’s ongoing major or central operations” (SFAC No. 6, p. 23).

- 2 Expenses are formally defined by the FASB as “outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity’s ongoing major or central operations” (SFAC No. 6, p. 23).
- 3 FASB notes that gains represent an increase in organizational value from activities that are “*incidental* or *peripheral*” (SFAC No. 6, p. 24) to the primary purpose of the business.
- 4 FASB notes losses represent a decrease in organizational value from activities that are “*incidental* or *peripheral*” (SFAC No. 6, p. 24) to the primary purpose of the business.
- 5 Roku, Inc. “Form S-1 Filing with the Securities and Exchange Commission.” September 1, 2017. https://www.sec.gov/Archives/edgar/d...d403225ds1.htm
- 6 Roku, Inc. “Form S-1 Filing with the Securities and Exchange Commission.” September 1, 2017. https://www.sec.gov/Archives/edgar/d...d403225ds1.htm
- 7 Roku, Inc. Data. finance.yahoo.com/quote/ROKU/history?p=ROKU
- 8 The FASB defines assets as “probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events” (SFAC No. 6, p. 12).
- 9 The FASB defines liabilities as “probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events” (SFAC No. 6, p. 13).

5.6: Trends in Accounting

8. What major trends affect the accounting industry today?

The post-SOX business environment has brought many changes to the accounting profession. When the public accounting industry could no longer regulate itself back in the late 1990s and early 2000s, it became subject to formal regulation for the first time. This regulatory environment set higher standards for audit procedures, which actually helped public companies fine-tune their financial reporting procedures, despite the added costs and labor hours needed to comply with SOX. Once again the core auditing business, rather than financial advisory and management consulting services, became the primary focus of public accounting firms. The relationship between accountants and their clients has also changed, and the role of chief audit executive has taken on more visibility in many large organizations. In addition, the FASB has made slow but steady progress in making changes related to GAAP, including a separate decision-making framework for users and preparers of private company financial statements.[8] There are several other important trends that may affect the accounting industry over the next several years, including cloud computing services, automation, and staffing challenges.

Cloud-Based Services

The internet and cloud technology continue to disrupt many industries, including accounting, and clients expect their accountants to be up to speed on how financial data and other accounting information can be entered, accessed, and discussed in a very short period of time. For the most part, gone are the days when accountants and their support staff spend hours manually inputting data that gets “re-hydrated” into standardized accounting and financial statements, and reams of paper generate a company’s weekly, monthly, or yearly reports.

According to recent research, cloud-based accounting firms add five times more clients than traditional accounting firms because businesses expect their accountants to be able to use technology to create the company’s financial picture in real time, while assisting them in decision-making about where to go next in terms of profitability, sales, expansion, etc. In addition, it is estimated that more than 90 percent of small and medium-sized companies use cloud-based accounting software, which helps them synthesize the information they collect for their many important financial statements. This use of computerized accounting programs offers many opportunities to accountants to shift their focus when it comes to attracting and retaining business clients.[9]

Automation

In addition to cloud-based services, automation will continue to play an important role in the accounting industry, particularly in auditing services, where the manual gathering and inputting of information can be an inefficient and sometimes inaccurate process. Being able to automate this process will help generate complete sets of data that will improve the overall details of the auditing process. In addition, accountants who can use a client’s data files from their business operations and import this information into a tax or accounting software package will streamline the overall accounting process and lessen the tedious work of data entry.[10]

Staffing Challenges

As these and other disruptive technologies change the focus of accounting work, the challenge of hiring the right staff to use these new tools intensifies. With accounting processes becoming automated and less time-intensive, some accounting firms are becoming more connected to their clients and increasing their advisory services when it comes to daily business operations. This change in approach will likely have an impact on the type of experienced employees accountants hire in the future. In addition, because most services are now cloud-based and financial data is available rather quickly, businesses are apt to change accounting firms faster than in the past if they are unsatisfied with the services they receive. Accountants have a great opportunity to expand their business portfolios and increase their client list by leveraging technology as part of their overall corporate strategies.[11]

MANAGING CHANGE

Attracting and Retaining Millennial CPAs

Much has been written about millennials, the population segment born between 1980 and 2000. As the older baby boomer generation continues to retire, millennials now make up the largest group in the U.S. labor force. This group will continue to shape the workplace over the next few decades.

Businesses and other organizations cannot ignore this group and their expectations about employment. To be successful, today’s accounting firms—whether Big 4 firms or small and mid-sized businesses—need to understand what makes millennials tick, what is important to them, what makes them look for new opportunities both within and outside the organization—and how to retain them.

Global accounting services company PwC recently partnered with several other institutions to conduct a two-year generational study about the attitudes of millennial employees. Key findings suggest that millennials want flexibility in their work lives that leads to an enjoyable work-life balance, appreciation for the work they accomplish, challenges that will help them grow in their careers, and continued support from employers. As a result of this study, PwC made several changes to its own work environment to attract and retain millennial workers, including flexible schedules, relaxed dress codes, greater communication at all levels of the company, and a renewed commitment to transparency within the organization.

PwC is not alone in shifting its organizational culture to address some of the issues millennials say are important factors for them within the work environment. For example, Baker Tilly, another top accounting firm, recognizes that more than half its workforce consists of millennials who have helped shape the company's approach to work. The themes of flexibility and trust permeate the company's culture, which reinforces employees' motivation to be engaged in work that is meaningful, satisfying, and helps them develop as individuals.

Here are some other strategies accounting firms might employ to keep their 30-something employees from jumping ship:

- *Initiate onboarding activities quickly:* Although training accounting professionals takes time, companies should engage and train new employees quickly to immerse them in organizational culture and assign them work they view as meaningful.
- *Assign mentors from the start:* Millennials want to know their work makes a difference, so what better way to get them involved right from the start than to make sure they are connected to mentors who can guide their work and career path.
- *Support a flexible approach to work:* Some millennials are in the prime of their career, and many may also be juggling a family life that requires a lot of their time. Companies need to remember that millennials like being productive, although they may not think a long workday equates to a productive one. The use of cloud-based technology encourages employees to do their work in a productive atmosphere that may not take place in the office.

Recognizing generational traits of millennials not only demonstrates commitment on the part of the company, but also helps keep these employees engaged and involved in their work.

Critical Thinking Questions

1. Do you think a shift in thinking when it comes to managing millennials is a smart strategy? Why or why not?
2. Will accounting firms be required to rethink their billing strategies to address millennials' insistence on a more flexible approach to work? Explain your reasoning.

Sources: "Workforce of the Future: The Competing Forces Shaping 2030," https://www.pwc.com, accessed August 11, 2017; Hitendra Patil, "The 7 Experiences Millennials Want from Your Firm," http://www.cpatrendlines.com, accessed August 11, 2017; "Millennial Accountants Don't Want a Corner Office with a View," https://www.rogercpareview.com, April 24, 2017; David Isaacs, "Voices: Confessions of a Millennial CPA: The Most Productive Generation," https://www.accountingtoday.com, April 20, 2017; Teri Saylor, "How CPA Firms Are Evolving to Meet Millennials' Desires," http://www.journalofaccountancy.com, March 6, 2017.

CONCEPT CHECK

1. How has the relationship between public accounting firms and their clients changed since SOX became law?
2. Describe how cloud computing and automation are changing the accounting industry.
3. What are some of the challenges encountered by accounting firms when introducing new technologies into their workflow process?

5.7: Case Study - Accounting Fraud

Fig. 5.7: Vicari, Mario O. "The Fraud Triangle and Your Business." *Kreischer Miller*

One of the major issues examined in the field of accounting is the concept of fraud. **Fraud** can be defined in many ways, but here we define it as the act of intentionally deceiving a person or organization or misrepresenting a relationship in order to secure some type of benefit, either financial or non-financial.

Fraud Triangle

Workplace fraud is typically detected by anonymous tips or by accident, so many companies use the fraud triangle to help in the analysis of workplace fraud. Donald Cressey, an American criminologist and sociologist, developed the **fraud triangle** to help explain why law-abiding citizens sometimes commit serious workplace-related crimes. The **fraud triangle** consists of three elements: pressure**, opportunity, and rationalization .** When an employee commits fraud, the elements of the fraud triangle provide assistance in understanding the employee’s methods and rationale. Each of the elements needs to be present for workplace fraud to occur.

Typically, all three elements of the triangle must be in place for an employee to commit fraud, but companies usually focus on the opportunity aspect of mitigating fraud because, they can develop internal controls to manage the risk. The rationalization and pressure to commit fraud are harder to understand and identify. Many organizations may recognize that an employee may be under pressure, but many times the signs of pressure are missed.

Opportunity

Perceived opportunity is when a potential fraudster thinks that the internal controls are weak or sees a way to override them. This is the area in which an accountant has the greatest ability to mitigate fraud, as the accountant can review and test internal controls to locate weaknesses. After identifying a weak, circumvented, or nonexistent internal control, management, along with the accountant, can implement stronger internal controls.

Rationalization

Rationalization is a way for the potential fraudster to internalize the concept that the fraudulent actions are acceptable. A typical fraudster finds ways to personally justify his or her illegal and unethical behavior. Using rationalization as a tool to locate or combat fraud is difficult, because the outward signs may be difficult to recognize.

Pressure

Pressure (or incentive or motivation) is another element necessary for a person to commit fraud. The different types of pressure are typically found in

- vices, such as gambling or drug use
- financial pressures, such as greed or living beyond their means
- work pressure, such as being unhappy with a job
- other pressures, such as the desire to appear successful.

Pressure may be more recognizable than rationalization, for instance, when coworkers seem to be living beyond their means or complain that they want to get even with their employer because of low pay or other perceived slights.

Famous Examples of Accounting Fraud

Enron Scandal

A series of events that resulted in the bankruptcy of the U.S. energy, commodities, and services company **Enron Corporation** in 2001 and the dissolution of **Arthur Andersen LLP,** which had been one of the largest auditing and accounting companies in the world. Enron kept huge debts from the balance sheet, which resulted in shareholders losing $74 billion, thousands of employees and investors losing their retirement accounts, and many employees losing their jobs.

Toshiba Accounting Scandal

On July 21, 2015, Toshiba CEO Hisao Tanaka announced his resignation in the face of an accounting scandal tied to $1.2 billion in overstated operating profits. An independent investigative panel revealed that improper accounting was found to have taken place over seven years, embroiling two former CEOs in the scandal alongside Tanaka. The scandal was directly linked to unscrupulous accounting practices, such as booking future profits early, pushing back losses, and pushing back charges. Toshiba's corporate culture, one where strict obedience to superiors was required, enabled fraudulent accounting practices.

Waste Management

To meet analysts and investor expectations, the company journalized several fraudulent accounting transactions to eliminate and defer expenses. By decreasing the expenses on the income statement, the company was able to report a higher profit. To do this, the company used several fraudulent accounting techniques: avoided depreciation expenses on garbage trucks, failed to record landfill and other expenses, and other accounting manipulations. The company revised their annual financial reports for 1992 through 1996, plus the first three quarters of 1997. The revision caught the attention of the U.S. Securities and Exchange Commission which launched an investigation filed fraud charges.

Sources:

- "Analyze Fraud in the Accounting Workplace." *Principles of Financial Accounting, v.1. OpenStax*
- Carpenter, J. William. "Toshba's Accounting Scandal: How it Happened." *Investopedia.* Updates May 27,2021
- Diamond, Anne and Robert. "Fraud at Waste Management." *Proiessional Ethics for Accountants, California 9th ed.* Pressbooks. 2019
- Dodd, Vivek. "The World's Biggest Accounting Fraud Scandals." *Skillcast. September 7, 2023*
- "Enron Scandal," Britannical.com

5.8: O'Net Exploration - Accounting

O*NET Online: Career Exploration Tool

Connect to **O*NET Online** to explore the job and career fields you are interested in. Learn about the characteristics of the job or field as well as the education requirements needed to to be employed. Are they a good fit for you?

Determine

- the role of accountants and accounting within an organization

Explore

- work activities and tasks
- work environment and values
- technology skills used
- education or training requirements
- interests and abilities needed
- salary, wages, and employment trends

Jot down

- job title and description or summary
- occupation specific information (activities, tasks, environment)
- education or experience requirements
- worker characteristics or profile(personality type, abilities, interests
- why or why not is this job/career a good fit for you

CHAPTER OVERVIEW

6: Business Career Path Overview

6.1: Guiding Questions and Learning Objectives

Image Source: Gerd Altman, *Pixabay*

Unit 6: Guiding Questions

- For a business as a whole, what tasks / roles does a professional in each business career field provide?
- For a business as a whole, how do the career fields we have studied interact for the success of the business?
- Describe the skills and characteristics of a successful professional in each career field in business.
- Self-assess your skill set as it applies to each career field in business.

Unit 6: Learning Objectives

- I can define the tasks/ roles of professionals in each business career field we have studied. accounting.
- I can explain how professionals in each business career field interact for the benefit of the business.
- I can summarize the skills and characteristics of a successful professional in each career field.
- I can assess how my skills/ characteristics are best suited for the varying career fields in business.

6.2: Apple and the 4 Functional Areas of Business

Watch

10-minute video: "How Apple used the 4 functional areas of business to build the iPhone**."**

Assess Your Knowledge

- For a company or organization what tasks/ roles does a professional in each business career field provide?
- For a company or organization how do the career fields we have studied interact for the success of the business?
- Describe the skills and characteristics of a successful professional in each career field in business.
- Self-assess your skill set as it applies to each career field in business.

6.3: Case Study - Mc Donald's

Image Source: Everett, Valerie. "McDonald's in Indianapolis. CC BY-SA 2.0 via Wikimedia Commons

McDonald's

Although it has grown to be the multinational fast food corporation it is today**,** McDonald's origins was as a simple restaurant located in San Bernardino, CA. Founded by brothers Richard and Maurice McDonald in 1940. Later they would rechristen the business as a hamburger stand, turn the company into a franchise. The Golden Arches log was introduced in 1953 at its location in Phoenix, AZ. Two years late, in 1955, businessman Ray Kroc, joined the company as a franchise agent. and in 1961 bought out the McDonald brothers.

Currently, McDonald's is the world's largest fast food restaurant chain, serving tens of millions of customers at more than 40,000 stores in more than a hundred countries. They are best known for their hamburgers, cheeseburgers and french fries, but have expanded their menus to include items like chicken, fish, fruit, and salads. French fries are their best-selling franchised item followed by the Big Mac.

McDonald's Corporation revenues come from the rent, royalties, and fees paid by the franchisees, as well as sales in company-operated restaurants. McDonald's is the world's second-largest private employer with 1.7 million employees the majority of whom work in the McDonald's stores.[As of 2022, McDonald's has the sixth-highest global brand valuation.

Source

"McDonald's." *Wikipedia.com* Accessed April 18, 2024

Assess Your Knowledge

Review the information you have learned in the past several weeks, including the four areas of business you explored:

- Management
- Human Resources
- Sales and Marketing
- Accounting

For each one of these four business areas, answer the following questions:

- What are two business tasks that this business area would complete for a Mc Donald's restaurant?
- What are the potential consequences to Mc Donald’s of not performing those tasks correctly?
- How would each career path need to interact with each other to provide for success at the Mc Donald’s restaurant? *Example, what would the payroll department need from the human resources department when hiring a new employee?*
- What are the skills/ characteristics of a person who is successful in this career path?
- Which skills/ characteristics might make YOU successful in this career path?
- What about this career path interests you? Or does not interest you?
- Share any additional questions or knowledge regarding this career field.

Welcome to the Business Library. This Living Library is a principal hub of the LibreTexts project, which is a multi-institutional collaborative venture to develop the next generation of open-access texts to improve postsecondary education at all levels of higher learning. The LibreTexts approach is highly collaborative where an Open Access textbook environment is under constant revision by students, faculty, and outside experts to supplant conventional paper-based books.

Glossary (Blank Page)

Example and Directions

Words (or words that have the same definition)	The definition is case sensitive	(Optional) Image to display with the definition [Not displayed in Glossary, only in pop-up on pages]	(Optional) Caption for Image	(Optional) External or Internal Link	(Optional) Source for Definition
(Eg. "Genetic, Hereditary, DNA ...")	(Eg. "Relating to genes or heredity")		The infamous double helix	https://bio.libretexts.org/	CC-BY-SA; Delmar Larsen

Glossary Entries

Word(s)	Definition	Image	Caption	Link	Source
Sample Word 1	Sample Definition 1				

Detailed Licensing

Overview

Title: Business Concepts: Exploring Careers in Business

Webpages: 54

All licenses found:

- CC BY 4.0: 94.4% (51 pages)
- Undeclared: 5.6% (3 pages)

By Page

- Business Concepts: Exploring Careers in Business - *CC BY 4.0*
  - Front Matter - *CC BY 4.0*
    - Business Concepts: Exploring Careers in Business - *CC BY 4.0*
    - TitlePage - *Undeclared*
    - InfoPage - *CC BY 4.0*
    - Table of Contents - *Undeclared*
    - Licensing - *CC BY 4.0*
  - 1: Internal and External Business Environments - *CC BY 4.0*
    - 1.1: Guiding Questions | Learning Objectives | Key Terms - *CC BY 4.0*
    - 1.2: Learn the Basics of Business - *CC BY 4.0*
    - 1.3: Developing Interpersonal Skills Is Key to Your Success - *CC BY 4.0*
    - 1.4: Organizational Designs and Structures - *CC BY 4.0*
  - 2: The Functions of Management - *CC BY 4.0*
    - 2.1: Guiding Questions | Learning Objectives | Key Terms - *CC BY 4.0*
    - 2.2: What Do Managers Do? - *CC BY 4.0*
    - 2.3: Major Characteristics of the Manager's Job - *CC BY 4.0*
    - 2.4: The POLC Framework - *CC BY 4.0*
    - 2.5: Case Study - Stanley Cup - *CC BY 4.0*
    - 2.6: O*NET Exploration - Management - *CC BY 4.0*
  - 3: The Role of Human Resources in an Organization - *CC BY 4.0*
    - 3.1: Guiding Questions | Learning Objectives | Key Terms - *CC BY 4.0*
    - 3.2: Introduction to Human Resources - *CC BY 4.0*
    - 3.3: Achieving High Performance through Human Resources Management - *CC BY 4.0*
    - 3.4: Summary of Human Resources - *CC BY 4.0*
    - 3.5: Benefits of Training and Development - *CC BY 4.0*
    - 3.6: Complete Guide to Compensation and Benefits - *CC BY 4.0*
    - 3.7: Functions of Human Resources Management - *CC BY 4.0*
    - 3.8: O'Net Exploration - Human Resources - *CC BY 4.0*
  - 4: The Role of Marketing and Sales in an Organization - *CC BY 4.0*
    - 4.1: Guiding Questions | Learning Objectives - *CC BY 4.0*
    - 4.2: Marketing and the Marketing Process - *CC BY 4.0*
    - 4.3: Marketing Research and Big Data - *CC BY 4.0*
    - 4.4: What is the Difference Between Sales and Marketing - *CC BY 4.0*
    - 4.5: The 4 Ps of Marketing - *CC BY 4.0*
    - 4.6: Conducting Market Research - *CC BY 4.0*
    - 4.7: O'Net Exploration - Marketing and Sales - *CC BY 4.0*
  - 5: The Role of Accounting in an Organization - *CC BY 4.0*
    - 5.1: Guiding Questions | Learning Objectives | Key Terms - *CC BY 4.0*
    - 5.2: Identify Users of Accounting Information and How They Apply Information - *CC BY 4.0*
    - 5.3: Describe Typical Accounting Activities and the Role Accountants Play in Identifying, Recording, and Reporting Financial Activities - *CC BY 4.0*
    - 5.4: Describe the Varied Career Paths Open to Individuals with an Accounting Education - *CC BY 4.0*
    - 5.5: Describe the Income Statement, Statement of Owner’s Equity, Balance Sheet, and Statement of Cash Flows, and How They Interrelate - *CC BY 4.0*
    - 5.6: Trends in Accounting - *CC BY 4.0*
    - 5.7: Case Study - Accounting Fraud - *CC BY 4.0*
    - 5.8: O'Net Exploration - Accounting - *CC BY 4.0*
  - 6: Business Career Path Overview - *CC BY 4.0*

Detailed Licensing

Overview

Title: Business Concepts: Exploring Careers in Business

Webpages: 54

All licenses found:

- CC BY 4.0: 94.4% (51 pages)
- Undeclared: 5.6% (3 pages)

By Page

- Business Concepts: Exploring Careers in Business - *CC BY 4.0*
  - Front Matter - *CC BY 4.0*
    - Business Concepts: Exploring Careers in Business - *CC BY 4.0*
    - TitlePage - *Undeclared*
    - InfoPage - *CC BY 4.0*
    - Table of Contents - *Undeclared*
    - Licensing - *CC BY 4.0*
  - 1: Internal and External Business Environments - *CC BY 4.0*
    - 1.1: Guiding Questions | Learning Objectives | Key Terms - *CC BY 4.0*
    - 1.2: Learn the Basics of Business - *CC BY 4.0*
    - 1.3: Developing Interpersonal Skills Is Key to Your Success - *CC BY 4.0*
    - 1.4: Organizational Designs and Structures - *CC BY 4.0*
  - 2: The Functions of Management - *CC BY 4.0*
    - 2.1: Guiding Questions | Learning Objectives | Key Terms - *CC BY 4.0*
    - 2.2: What Do Managers Do? - *CC BY 4.0*
    - 2.3: Major Characteristics of the Manager's Job - *CC BY 4.0*
    - 2.4: The POLC Framework - *CC BY 4.0*
    - 2.5: Case Study - Stanley Cup - *CC BY 4.0*
    - 2.6: O*NET Exploration - Management - *CC BY 4.0*
  - 3: The Role of Human Resources in an Organization - *CC BY 4.0*
    - 3.1: Guiding Questions | Learning Objectives | Key Terms - *CC BY 4.0*
    - 3.2: Introduction to Human Resources - *CC BY 4.0*
    - 3.3: Achieving High Performance through Human Resources Management - *CC BY 4.0*
    - 3.4: Summary of Human Resources - *CC BY 4.0*
    - 3.5: Benefits of Training and Development - *CC BY 4.0*
    - 3.6: Complete Guide to Compensation and Benefits - *CC BY 4.0*
    - 3.7: Functions of Human Resources Management - *CC BY 4.0*
    - 3.8: O'Net Exploration - Human Resources - *CC BY 4.0*
  - 4: The Role of Marketing and Sales in an Organization - *CC BY 4.0*
    - 4.1: Guiding Questions | Learning Objectives - *CC BY 4.0*
    - 4.2: Marketing and the Marketing Process - *CC BY 4.0*
    - 4.3: Marketing Research and Big Data - *CC BY 4.0*
    - 4.4: What is the Difference Between Sales and Marketing - *CC BY 4.0*
    - 4.5: The 4 Ps of Marketing - *CC BY 4.0*
    - 4.6: Conducting Market Research - *CC BY 4.0*
    - 4.7: O'Net Exploration - Marketing and Sales - *CC BY 4.0*
  - 5: The Role of Accounting in an Organization - *CC BY 4.0*
    - 5.1: Guiding Questions | Learning Objectives | Key Terms - *CC BY 4.0*
    - 5.2: Identify Users of Accounting Information and How They Apply Information - *CC BY 4.0*
    - 5.3: Describe Typical Accounting Activities and the Role Accountants Play in Identifying, Recording, and Reporting Financial Activities - *CC BY 4.0*
    - 5.4: Describe the Varied Career Paths Open to Individuals with an Accounting Education - *CC BY 4.0*
    - 5.5: Describe the Income Statement, Statement of Owner’s Equity, Balance Sheet, and Statement of Cash Flows, and How They Interrelate - *CC BY 4.0*
    - 5.6: Trends in Accounting - *CC BY 4.0*
    - 5.7: Case Study - Accounting Fraud - *CC BY 4.0*
    - 5.8: O'Net Exploration - Accounting - *CC BY 4.0*
  - 6: Business Career Path Overview - *CC BY 4.0*