MERIT BADGE SERIES

AMERICAN BUSINESS

STEM-Based

Scouting America

SCOUTING AMERICA
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AMERICAN BUSINESS

"Enhancing our youths' competitive edge through merit badges"

Scouting America

Requirements

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1. Do the following:
   - (a) Explain four features of the free enterprise system in the United States. Describe the difference between freedom and license. Tell how the Scout Oath and Scout Law apply to business and free enterprise.
   - (b) Describe the Industrial Revolution and tell about the major developments that marked the start of the modern industrial era in the United States. Discuss three people who had a great influence on business or industry in the United States and describe what each did.
   - (c) Identify and describe to your counselor the five primary areas of business.
   - (d) Explain the history of labor unions in the United States and the importance of labor unions and employers working together. Identify two major labor unions currently in existence.
   - (e) Discuss with your counselor how business impacts the local, national, and global economy.
2. Do the following:
   - (a) Explain the three basic types of financial statements (income statement, balance sheet, and statement of cash flows). Discuss with your counselor how each statement can help business leaders make better decisions.

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(b) Explain how changes in interest rates, taxes, and government spending affect the flow of money into or out of business and industry.

(c) Explain how a sole proprietorship, partnership, or limited liability company gets its capital. Discuss and explain four ways a corporation obtains capital.

(d) Name five kinds of insurance useful to business. Describe their purposes.

3. Do the following:

   (a) Explain the place of profit in business.

   (b) Describe to your counselor green marketing and sustainable business practices.

   (c) Explain how ethics plays a role in business decision making.

   (d) Discuss the differences between operating a brick-and-mortar business versus an online business.

4. Describe the role of the U.S. Department of Labor. Discuss TWO of the following topics with your counselor:

   (a) Fair Labor Standards Act (FLSA)

   (b) Occupational Safety and Health Act (OSHA)

   (c) Family and Medical Leave Act (FMLA)

   (d) Employee Retirement Income Security Act (ERISA)

5. Choose a business and research how it applies to each of the primary areas of business (accounting, finance, economics, marketing, and management). Share what you have learned with your counselor.

6. Do ONE of the following:

   (a) Choose one of the primary areas of business and identify three career opportunities. Select one and research the education, training, and experience required for this career. Discuss this with your counselor and explain why this interests you.

(b) Select a business leader and interview this individual to learn more about his or her company and career path. Discuss the role ethics plays in making business decisions. Share what you have learned with your counselor.

Contents

Introduction

As students and Scouts, you are learning about new subjects and preparing for your future. When you become an adult, you will gain several rights, among them the right to vote, own property, and sign contracts. Earning the American Business merit badge can help you learn practical business matters that will be useful throughout life. Learning how businesses function will help you understand our society and possibly determine how you will choose to live in the future.

Different countries have different business systems; the kind of business system a country supports is related to that country's type of government.

American business and government are based on free enterprise, including individual freedom and opportunity. The four features of free enterprise are economic freedom, voluntary exchange, private property, and profit motive. *Economic freedom* allows all individuals to make their own economic choices. Owners and workers can pursue their own interests, and consumers may spend their money however they choose. *Voluntary exchange* allows consumers to trade (buy/sell) goods and services in an open marketplace. Land and assets, such as equipment, products, and machines, are privately owned in free enterprise *(private property)*. *Profit motive* encourages both individuals and businesses to improve their financial security, which results in growing the local and global economy. Even under a free enterprise system, though, some government supervision and regulations are needed to prevent abuses and to keep things as fair as possible. For instance, the Small Business Administration (SBA) helps small businesses obtain financing (loans) on reasonable terms from private sources that are licensed and regulated by the SBA.

Through voting, we can help choose those officials who pass the laws and regulations that affect how business is conducted. You can vote for those who share your opinion. These freedoms we now take for granted were considered radical ideas when our country was founded in 1776. Nevertheless, the American business system and government have allowed citizens here to enjoy high standards of living.

How Scouting Relates to Business

Scouting relates to good business practices in many ways. The Scout motto "Be Prepared" is one way. By the time you are ready to enter the workforce (that includes a high school student working part-time!) or start a business, you should have some knowledge of how business works.

The Scout Oath to do your best and help people also applies if you are to be successful. In the business world, you must be trustworthy—dependable in your position or business and someone who pays bills on time, among other things. That aside, you should help those who are less fortunate by helping charities without thought for personal gain. As a worker and business-person, you also need to be friendly and courteous to attract and keep customers. Follow the laws and rules of business.

A Scout also should be thrifty, and set money aside for emergencies and other unforeseen needs. All citizens should help protect and conserve natural resources to make sure they are available for future generations. So the values you learn in Scouting will help you in adulthood and your career.

History of Business

Business has been conducted ever since the earliest humans began trading with one another. They lived by applying human energy to natural resources. Animals were caught by hand, fruits and other edible plants were picked by hand, and humans lived in caves, under rocks, and in trees.

Civilization began when early humans discovered that using tools enhanced their ability to produce useful things. We use many kinds of tools—hammers, saws, screwdrivers. Other tools that you might not have thought of include can openers, smartphones, and utilities such as gas and oil. Electricity is a tool because it supplies nonhuman power to run machinery and to provide light and heat. Wheelbarrows, trains, vehicles, and highways also are tools because they increase the ability to move people and goods to places where they can be more useful.

A tool is anything, natural or synthetic, that saves human energy and produces something that normally cannot be created by human energy alone. For example, using a stone or a trap to catch an animal makes the task easier, thus saving human energy. A fire can be used to cook something, a task that human energy alone cannot produce.

Eventually, many things made by hand started being made by machines, and that started the Industrial Revolution. Machines now produce most consumer goods, such as clothing, cars, furniture, computers, sports equipment, and televisions. Today, most Americans use some type of tool or machine in their work.

The benefits of using machines can easily be seen when comparing industrialized nations to less-developed countries, where most production relies on human labor. Less-developed countries have lower standards of living and fewer consumer goods than industrialized countries. With their earnings, people in industrialized countries can buy goods and services that they and their families want and need. Many people save part of their earnings for future purchases, emergencies, or investments.

The Evolution of Franchising

Franchising has come a long way since its early years in the Middle Ages. Back then, a local ruler such as a lord might grant merchants the right or privilege to sell their goods within a particular geographical area. Modern franchising as we recognize it gives individuals an opportunity to invest in a proven product or service that has a history of success. A franchised product or service might have a reputation for quality and consistency, an established concept, and a loyal following, among other characteristics.

You might be familiar with franchising because one or two franchises are on your list of favorite places to eat. The most recognizable franchise is the fast-food type. However, a franchise could be just about any type of business—restaurants, auto dealerships, professional sports teams, theaters—you name it, it could be a franchise.

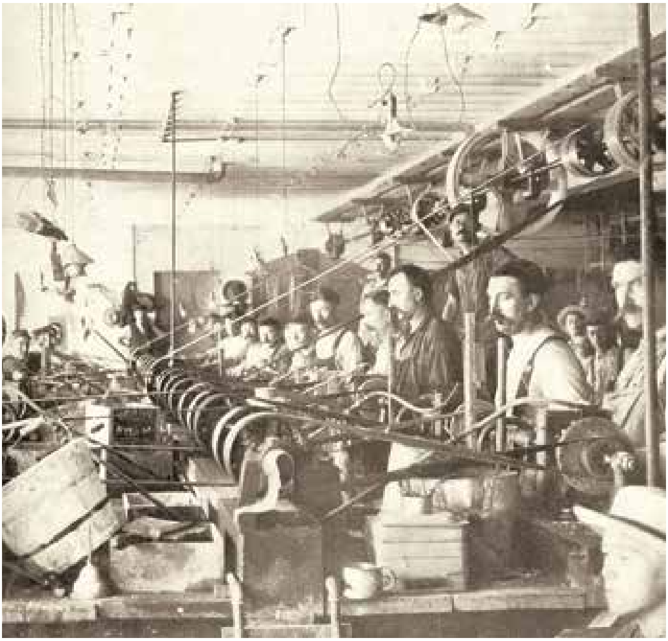
Today, franchising is a highly regulated industry that plays a key role in the U.S. economy. According to the International Franchise Association, there are more than 800,000 franchise-related businesses in the United States. These businesses support nearly 9.1 million jobs and account for about $994 billion in overall economic output. That's a lot of money.

Industrial Revolution

The Industrial Revolution basically refers to the adoption of machines to do work that previously had been done by hand because it increased productivity and efficiency. It is called a revolution because it marked the transformation from agricultural economies that relied on simple tools to industrial economies that relied on complex machines. Industrialism swept through England in the 18th century, but did not occur in the United States until early in the 19th century. Before then, about four out of five Americans were farmers and lived in rural communities.

Industrial development encouraged people to move from rural areas to towns and cities. Large factories located there needed people to operate the machines making products that were once made by individuals or in small workshops. Because so many people moved to urban centers, what had been largely an agricultural economy changed into an industrial one.

Besides changing the economy, the Industrial Revolution altered society in other ways. For example, women began to leave their homes to enter the workforce. The movement also led to superior military technology and helped the United States and European nations become the most powerful countries in the 19th and 20th centuries.



During the 19th century, factory workers endured low-paying positions and harsh conditions. Eventually laws and labor unions improved conditions and wages.

The Industrial Revolution did not begin overnight. It occurred as a result of the knowledge and skills people had been learning for thousands of years. In about 1750, some important discoveries and inventions allowed people to do many things that had been impossible before. Three fields in which the greatest progress has been made include energy, materials, and mass production.

In the 1800s, steam locomotives helped propel the Industrial Revolution at a rapid pace because it enabled people and goods to travel farther and faster.

Energy

The machines that were used before 1750 were mainly powered by humans, animals, water, or wind. In 1769, Scottish engineer and inventor James Watt patented a steam engine that improved on previous engines that had been used to pump water. Watt made a series of inventions that led to modern steam engines. At the beginning of the 19th century, noncondensing steam engines developed by British engineer and inventor Richard Trevithick and American inventor Oliver Evans led to the development of engines used to power trains and ships.

The internal combustion engine, introduced in the 1880s, quickly led to the development of the automobile, which had been unfeasible when powered by larger steam engines. By using combustion engines powered by fossil fuels such as gasoline and oil, automobiles and trucks allowed people and products to travel farther and faster.

Similar engines were used in planes to make travel and the transport of products even more efficient, thus helping businesses expand to locations previously beyond their reach. When jet propulsion engines (which still use fossil fuels) were developed, travel and product transport became even faster. Later, solid fuels were developed to send powerful rockets to the moon and unmanned rockets to faraway planets.

Nuclear energy also has been harnessed to produce electricity and weapons of mass destruction. Nuclear power, which is energy released by the splitting or fusing of atomic nuclei, is used to produce electricity in several countries. But deadly radiation is a by-product of producing this type of energy.

Better ways are being developed to generate electricity, such as solar and wind power. This is a clean "fuel" that does not release pollutants into the environment like fossil fuels do. Energy from the sun and wind is also a renewable resource—it will never run out or be depleted.

Batteries are another form of energy. Various types and sizes are used in everything from vehicles and watches to laptop computers and mobile phones. More discoveries and inventions in energy have led to products that people had previously been unable to envision. These new energy supplies have led to more and better production. Millions of people now own energy-powered devices, and much of the world is connected one way or another because of these inventions.

For more than 125 years, water and steam have been used to power turbines that generate electricity. Those energy sources had previously been studied and written about but never consistently harnessed. Today, turbine-powered generators produce most of the world's electricity.

In ancient times, royalty considered iron to be more valuable to them than gold.

Materials

Humans have used tools for thousands of years. However, the types of items people could make and use in ancient times were limited by available materials. Most materials used were wood, stone, and fibers, such as those that could be acquired from animals (wool) and plants (cotton). These materials could be cut, carved, and woven by hand tools that often were made from stone, metal, or wood.

Iron became an important and valuable metal because it is tough and durable. However, because it is difficult to manufacture, iron was scarce and expensive. As metalworking technology improved, other materials, such as alloys (a mixture of two or more metals, or a metal mixed with a nonmetallic

The American Steel Industry

The steel industry in the United States, which started in the late 1850s, put the country on the map as a world economic leader. The abundance in iron ore deposits and inexpensive water transportation via the Great Lakes to ship the materials positioned the Midwest as the production center of this giant industry.

Following the Civil War in 1865, the steel industry quickly grew due to the new Bessemer process of making steel and the great expansion of the American railroad. Between 1880 and 1900, steel production increased from 1.25 million tons to 10 million tons. By 1910, the United States was producing more than 24 million tons of steel. This increase was due in large part to the booming automobile industry.

The steel industry continued to set the pace of the nation's economic strength well beyond World War II and reached its peak production of 141 million tons in 1969. However, competition abroad with more efficient steel plants and lower labor costs began affecting the U.S. steel industry. By the mid-1970s, American production plummeted to 89 million tons—a 37 percent dip. Despite that reduction, the industry continued to employ nearly half a million workers at very high wages. By the late 1980s, the industry rebounded with 102.7 million tons produced by a reduced labor force of 169,000 steelworkers. Production per worker more than tripled during that 13-year period.

Though not the world leader it once was, the steel industry in America is growing and becoming more competitive.

material) and carbon materials were developed and used in all kinds of products. Other metals humans use include silver, copper, aluminum, nickel, platinum, tungsten, uranium, and chromium. Titanium has become well-known for its strength and light weight. It is a popular material for sports items such as golf clubs and bicycles.

Plastics also have become an integral part of our lives. Plastics have been used for thousands of years, but it wasn't until the early 1900s that new forms were invented, suitable for all kinds of uses. Among the thousands of items made with plastics are cars, computers, recreational equipment, houses, clothing, furniture, carpets, and credit cards. Some names of plastics include polyurethane, polyester, acrylic, and nylon.

Before the mass production of cars, most Americans traveled by horses, wagons, or steam-powered trains and boats.

Because it is a versatile and lightweight synthetic material, plastic can be made hard, flexible, elastic, large, small, thin, and thick.

Mass Production

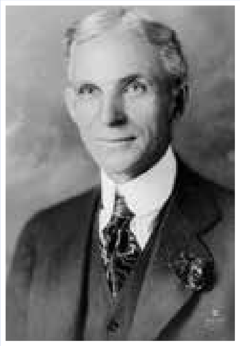
Eli Whitney

Eli Whitney, inventor of the cotton gin, got the idea in 1798 of using interchangeable parts in manufacturing. By using interchangeable, standard parts that had been manufactured beforehand, it was possible to produce goods quicker and cheaper than with custom-made parts.

This idea led to the use of an assembly line, which used conveyer belts to move a product along to different stations where people assembled individual parts until the product was completed. This system was first used in 1913 by American industrialist Henry Ford and his partners to produce flywheel magnetos, the ignition system used in one of the first automobiles produced, the Model T.

Over the years, production has become more efficient because of the use of robotic tools and computers. Robots, for example, can perform many specific tasks more efficiently than humans. Computers can be used for inventory-tracking systems that assemble and deliver items when they are needed.

Henry Ford


Henry Ford

Henry Ford began using standardized interchangeable parts and assembly-line techniques in 1913, 10 years after founding the Ford Motor Company. He helped popularize the technique and made assembly-line work more appealing by offering higher wages. He did that to prevent workers from leaving because of the monotonous work associated with assembly lines. It gave him a stable workforce and helped double the company's profits in two years.

In 1941, Ford's assembly-line techniques won him government contracts to manufacture bomber parts needed for World War II. Eventually his company made entire planes. By the end of the war in 1945, Ford Motor Company had manufactured more than 8,000 planes.


1913 Ford Model T assembly line

Starting in the United States

Because of the Industrial Revolution's success in Europe, in 1791, U.S. Secretary of the Treasury Alexander Hamilton called for the same type of revolution in the United States. He and many others wanted the United States, which had won its independence from Great Britain just a few years earlier, to become economically strong. They organized associations that promoted industrialization.

Although more than three-fourths of the working population in the United States was involved in agriculture at the time, the Industrial Revolution spread rapidly. Americans quickly adopted industrialization. A strong work ethic, the freedom of people and goods to move across state borders, and access to abundant natural resource reserves helped, and the United States continued to advance even faster than the Europeans. By the end of the century, the United States became the world leader in manufacturing and spurred what is known as the Second Industrial Revolution. The United States continues to be one of the world's largest producers of goods.

In 1851, America's rapid advancement was evident at the first world's fair in London. The work of the Americans attracted so much attention that the British sent a committee to the United States to study its manufacturing techniques and accomplishments.

Globalization

Globalization is a term used to describe an increase in international trade, global communications, foreign investments, and global companies. The result of globalization is a world economy in which the borders between countries have blurred. This new economy has allowed entrepreneurs (business owners and management) and corporations to raise money anywhere in the world and to produce and sell goods or services nearly anywhere. Technology, such as the internet, has helped make global corporations and markets possible.

Globalization has grown rapidly since the 1970s, but it has been an economic trend since the end of World War II in 1945. At the end of the war, the United States established policies that encouraged trade and business ventures with other countries, except those with Communist governments, such as members of the former Soviet Union (now Russia and several other countries).

Corporations sometimes move production to poorer countries to take advantage of lenient labor laws and lower standards of living in an effort to reduce labor costs. As a result, workers in developed nations fear that they will lose

One goal of globalization is to help people everywhere raise their standards of living and to live more diversified lifestyles. This has happened to a certain extent, but some critics and experts fear that globalization may be causing more problems than it is solving.

their positions to lower-paid workers in foreign countries. For example, some of the products you use may have been manufactured in countries such as China or Vietnam. Fifty years ago, those same types of products probably were manufactured in the United States. When companies moved manufacturing plants to other countries, doing so kept the prices of those products low for Americans but left some Americans without work.

Furthermore, many world leaders are concerned that the culture in their countries may be endangered by the increased exposure to the internet, satellite television, and other media. Yet, supporters say that consumers and capitalists are benefiting. Global trade has increased choice, spending, and international travel, and led to better living standards. They say that globalization has led to greater understanding between cultures.

The evolving global economy no doubt presents challenges to economists, politicians, environmentalists, and human rights groups. Many experts compare globalization with the Industrial Revolution because of the way it is altering the world.

Brick-and-Mortar vs. Online Businesses

The internet has radically changed global communication and the way business is conducted. Entrepreneurs and companies have opened online businesses to buy, sell, and distribute products and services. This allows consumers to buy products from almost anywhere in the world. While some conduct business only over the internet, many companies use websites to complement their retail outlets. There are many differences in operating a brick-and-mortar business versus an online business.

Online commerce allows an individual or a company to start a business with limited resources (time, money, people, facilities). With a computer and an internet connection, an online business can sell and ship products or services from a small space such as a home. Although an online business does not have some of the same complexities and costs as a brick-and-mortar business, the owner of an online business needs to consider many of the same factors, including taxes and inventory storage. Many states now require sales taxes to be paid on goods and services ordered from another state. Often, this is self-reported when buyers file their annual tax returns. However, more and more online businesses are collecting and paying sales taxes like brick-and-mortar businesses do.

Additionally, the owners of online businesses may need to consider moving into larger facilities when they need more room for inventory and personnel.

A brick-and-mortar business is where a company has a retail location that allows customers to physically look at merchandise or discuss services they are considering purchasing. A brick-and-mortar location may also offer a website that showcases its goods and services. Starting a business as a brick-and-mortar location has much higher costs, including rent, higher inventory levels, insurance, location build-out costs, and more employees. Often, a business may start as an online business to develop a customer base and grow profits in order to reinvest and move into a brick-and-mortar store.

Bill Gates

If you have a personal computer, you probably own some Microsoft software and hardware, which shows how big a company Bill Gates has built. Microsoft's success has made Gates one of the most influential people in the computer industry—and one of the richest people in the world. Gates cofounded Microsoft with high school friend Paul Allen in 1975. Together, they began learning about computers and programming languages in high school.

Microsoft cofounder Bill Gates

The MITS Altair 8800

In 1973, Gates entered Harvard University. While there, he and Allen developed a version of the BASIC computer programming language for the Altair 8800, one of the first personal computers, and licensed the software to MITS. Then they formed Microsoft (then it was Micro-soft) to develop BASIC for other computer companies. By 1999, Microsoft dominated the personal computer business.

Components of Business

It is commonly recognized that business includes five components or major functional areas. These five components are *accounting, economics, finance, management,* and *marketing*. If you start your own business or work for another organization, you will find that these five functional areas are very important, not only to for-profit businesses but also to nonprofit organizations. If you decide to study any business topic in college, you will likely be required to take at least one or two classes in each of these functional areas.

According to Investopedia, *accounting* is "the systematic and comprehensive recording of financial transactions," as well as "the process of summarizing, analyzing, and reporting these transactions." The financial statements that are produced during the accounting process provide information about a business's operations, profit or loss, and cash flow. Accounting is one of the key functions for almost any business; it may be handled by a bookkeeper and an accountant at small firms or by sizable accounting departments with dozens of accountants and administrative employees at larger companies.

Economics, according to Investopedia, is a social science that "studies how individuals, businesses, governments, and nations make choices on allocating resources to satisfy their wants and needs." There are two main branches of economics: Macroeconomics focuses on the economy as a whole, and microeconomics focuses on individual consumers and businesses. The economy can be impacted by wars and shortages of important products, such as oil and precious metals.

Investopedia describes *finance* as the study of money, investments, and other financial instruments. It also consists of financial systems, which include the public, private, and government spaces. There are three main categories of finance: public finance, corporate finance, and personal finance. Financial products include stocks, insurance, retirement plans, and bank accounts.

Merriam-Webster.com defines *management* as "the conducting or supervising of something (such as a business)." The field of management includes human resource management, which is concerned with employee recruitment, training, compensation, motivation, and even firing. Management also includes management (computer) information systems, which uses computer-related technologies and tools to help managers make decisions, and organizational behavior, which is how an organization (either for-profit or nonprofit) interacts with other organizations and the type of personality or corporate culture it has.

Marketing encompasses the activities of a company to promote the buying or selling of a product or service, according to Investopedia. These activities include advertising, selling, and delivering products to people. Those who work in marketing departments at companies try to get the attention of target audiences by using slogans, packaging design, celebrity endorsements, and general media exposure. The four P's of marketing are product, place, price, and promotion. Product and price are self-explanatory. Place can otherwise be referred to as distribution, or how a product gets from production to the final customer. It includes wholesale and retail operations. Promotion has four elements, known as the promotional mix: advertising, personal selling, sales promotions, and public relations/publicity.

Marketing people may claim that marketing is most important because you cannot have a business without being able to sell it. Accountants may also claim that accounting is most important because ethical representation of a company in relationship to financial statements and taxes is necessary. Accounting also keeps track of a company's money. However, despite these claims, all five components of business are equally important to have a successful business.

Business Cycles

Even though business in capitalist countries has thrived since the Industrial Revolution of the late 1800s, there have been many economic ups and downs. These fluctuations are called *business cycles*.

While the timing of business cycles usually is unpredictable, many economists believe in a theory developed by American economist Wesley Mitchell that divides cycles into four predictable phases: prosperity, liquidation, depression, and recovery.

During *prosperity,* production grows and employment, wages, and profits rise. However, as the growth continues, many effects can cause a recession or depression. For example, as production increases, so do production costs. Increased production also could cause a shortage of materials and result in lower production and higher prices.

A steady increase in prices is called *inflation*. To prevent inflation, governments often will raise interest rates, which causes businesses and consumers to borrow less money. As a result, both buy less. With a weaker demand for products, inventories begin to grow and prices drop as companies try to *liquidate* (turn property into money) by selling off inventories to pay debts. Companies begin to lay off workers and invest less. Some businesses are forced to close. When business activity slows drastically, the cycle is in a *depression*.

Recovery occurs when consumers start to buy and demand products again. The government may act by lowering interest rates and offering tax rebates to help rekindle the economy. Once the recovery gains momentum, a new prosperity phase begins.

Some cycles last only a few years while more severe down cycles have lasted longer than eight years. The worst financial collapse happened in 1929, and the country was thrown into what is known as the Great Depression. That period lasted through the 1930s and spread worldwide. It was not until 1941 that full recovery was realized.

Labor union demonstration, early 1900s

Labor Unions

A trade union is an association of workers that bargains with employers to improve wages, hours, and workplace conditions. This process is called *collective bargaining*. The goal is to make a contract—a *collective-bargaining agreement*—that meets the needs of both the union and the employer. If they can't reach an agreement, the union might conduct a strike against the employer to try and gain its demands.

Unions began with the changes brought by the Industrial Revolution in the late 1800s and early 1900s. An increase in the number of people moving to cities from rural areas to find positions in factories created a labor surplus and made employees more dependent on their employers. Further, the shift to *automation*—the use of complex machinery in production—meant fewer workers were needed and led to lower wages, unsafe working conditions, fewer benefits, and other abuses. To help offset dependency and to provide employees with more rights, better wages, and better working conditions, unions began to form. Much opposition and many legal barriers made forming unions a rugged, and sometimes violent, struggle.

Local labor unions usually include people who are employed in the same factory, store, or office. Or, the employees of a number of similar smaller companies might form a single local union. People working for a large company often are organized into one industrial unit. In some instances, a single large company might be organized into multiple units. That means workers doing different kinds of work, such as electricians, carpenters, truck drivers, and assembly-line operators, are members of separate local unions, with each union having its own officers.

Any union member who has a dispute over pay, working conditions, or another item covered by the contract may talk to the *union representative,* a union member who helps employees when they have complaints against the company. If a union member has personal or family problems, a *union counselor* can help. Unions also employ *business agents* to manage union operations.

Unions are of two principal types: craft and industrial. *Craft unions* include workers who perform a specific kind of work, such as electricians and carpenters. *Industrial unions* include workers in a certain industry, such as autoworkers and steelworkers. There also are unions that include government workers, teachers, nurses, pilots, flight attendants, journalists, and professional athletes.

Examples of major American labor unions currently in existence include:

- American Federation of Government Employees
- American Federation of Teachers
- Bakery, Confectionery, Tobacco Workers and Grain Millers International Union
- Communications Workers of America
- International Association of Bridge, Structural, Ornamental and Reinforcing Iron Workers
- International Association of Fire Fighters
- International Association of Machinists and Aerospace Workers
- International Brotherhood of Electrical Workers
- International Brotherhood of Teamsters
- International Union of Painters and Allied Trades
- National Nurses United

- Screen Actors Guild–American Federation of Television and Radio Artists
- Service Employees International Union
- United Brotherhood of Carpenters and Joiners of America
- United Food and Commercial Workers International Union
- United Mine Workers of America

Before a collective bargaining agreement expires, the union and company representatives meet to bargain on a new contract. If an agreement can't be reached, a mediator may be called upon to help settle the dispute. If a new contract is not signed before the old one expires, union members might vote to strike—refuse to work—until a new contract is signed. This gives unions a lot of power. However, employers sometimes call for a lockout, which means union members aren't allowed to work because they won't meet the company's demands. In government positions, or those positions that affect public interest, the government might order workers to return to work for a limited time while contract talks resume. This government action protects the public from the interruption of necessary services or supplies.

Unions also try to bargain for *closed shops,* or *union shops,* which means that an employee must belong to a union to work at that particular company. *Open shops* mean that a worker can belong or not belong to a union and still work there. Unions believe open shops weaken their position; that's why they try to bargain for closed shops.

How Businesses Are Organized

Businesses are generally organized into sole proprietorships, partnerships, corporations, limited liability companies, and joint ventures. The most common form of business ownership is individual, or *sole proprietorship*. This is a business owned by one person.

The advantages of individual ownership include a person's ability to have direct control over a business and to be the sole recipient of the profits. Also, there are fewer laws regulating individual businesses. Disadvantages include being responsible for all business debts and expenses and finding it difficult to expand if finances are limited. Individual businesses usually are small and provide either services or goods (retail).

A sole proprietorship might be you starting a lawn care service. You would use your money to buy a lawn mower, edger, hedge trimmers, and other supplies. Then you would open for business and seek out customers, possibly starting out in your neighborhood, and begin mowing lawns as soon as you have *clients,* or customers. You could start applying the income you made to pay for expenses, such as purchasing equipment. After paying for initial costs and the ongoing expense of replenishing supplies and maintaining your equipment, the money left over would be your profit.

Partnerships usually are larger businesses than sole proprietorships because the partners can pool financial resources and use their expertise to divide responsibilities.

A *partnership* is an association formed by two or more people who operate a business as co-owners. Two common types of partnerships are "general" and "limited." A *general partner* is involved in the operation of a business and is responsible for its debts. A *limited partner* invests in a business, but isn't involved in its daily operation.

Take your lawn care service as an example: If you and a friend pooled your money to start the business and shared duties, expenses, and profits, then you would have a *general partnership*. If your friend is good at hedge trimming, he or she would be in charge of that particular service. You might be good at dealing with people, so you would build your customer base to increase income. The downside to partnerships is that if one partner makes mistakes or is irresponsible, it could damage the business and the partnership. For instance, if your friend is unreliable and doesn't show up to help mow a lawn, then all the work would fall on you, and you would get behind in your service to customers. So partnerships need to be formed carefully.

You can use your lawn care service as an example of a *limited partnership,* too. If your parent or guardian helped by giving you some of the money to start, with expectations of being paid back and gaining a percentage of the profits but without doing any actual work, you formed a version of a limited partnership with them.

In *joint ventures,* individuals or businesses agree to create a single business project. For example, Acme A Inc. might join with Acme B Inc. to form a joint venture named Acme C Inc. to produce a particular product that neither Acme A nor Acme B produces.

A *corporation* is a legal entity recognized as a single body with its own powers and responsibilities that are separate from those of the individual members. As a result, a corporation is able to continue indefinitely even though ownership and employees might change. Corporations create shares of stock that are sold to the initial owners and investors. But corporations are not limited to large companies. Many small firms and even individuals, such as professional athletes and entertainers, are *incorporated*—that is, they have formed a corporation.

Investors can easily buy and sell stocks through stock exchanges, and when they buy, they own part of the corporation and become *stockholders*. However, they have limited *liability,* or responsibility—they cannot lose more than what they have already invested if the corporation goes out of business or is sued. In addition, they are paid *dividends,* or shares of the profit, if the corporation is successful and stock prices rise.

By offering stock, corporations are able to raise capital for business expansion. As long as people are willing to buy the stock, the corporation has more money available than a sole proprietorship or a partnership. Stockholders may vote for the corporation's managing body, called the board of directors, which then decides who will oversee the operation of the business.

In addition to selling shares of stock, corporations can obtain capital by issuing bonds, which are written promises to pay a specific amount of money at a certain date in the future. Corporations can also raise capital through the process of borrowing from a variety of financial institutions and might consider reinvesting a portion of their profits back into the corporation. This may result in a lower dividend for the shareholders but could lead to a rise in the value of the stock.

A limited liability company, or "LLC," is a legal business entity that combines the limited liability features of a corporation with the operational flexibility of a sole proprietorship or a partnership. For these reasons, LLCs are attractive to many small-business owners. Owners of an LLC are called members. LLC members create a limited liability company agreement, or operating agreement, and agree to the rights, roles, and responsibilities of the members in how the business of the LLC operates. Members of an LLC can agree to manage the business like a partnership or like a corporation with designated officers and/or a board of managers. Members contribute money as capital to the LLC and receive a percentage of the profits from the business. Like corporations, members have limited liability and cannot lose more than what they have already invested if the LLC goes out of business or is sued.

Depending on how a business is organized, there are many variations for the types of taxation and liabilities that a business owner must face. Tax laws change frequently, so it is always in a business owner's best interest to consult a professional accountant who is familiar with the laws for the state where the business is established. For liabilities, it's best to turn to a lawyer who is knowledgeable about business structures.

Important Factors of Business

There are several important factors for businesses to consider: customers, competition, profits, sustainability, property, contracts, financial statements, and business ethics.

Customers

There is an old expression in business that says the customer is always right. The idea is that if businesses are to succeed, they need to have customers to buy their goods or services. So businesses try to keep customers happy in hopes of cultivating repeat business because businesses need a continuing income from continuing sales. That makes customers the most important people to a company. If you opened a lawn care service, you would try your best to please your customers so that they would continue to use your services season after season.

Without customers and income, the business cannot pay its bills, and it will fail.

Pay attention to how you and your family are treated when you go to a restaurant. If you like the service, chances are you will go back to that restaurant. However, if the waiter or waitress is rude, slow, or disinterested, you probably won't go back. Or, say you took your lawn mower to a shop for a midseason tune-up, but it wasn't ready as promised. You probably would use another company next time. While the people for whom you provide lawn care are your customers, you are a customer of the company that fixes and maintains lawn equipment.

Sylvia Woods

Sylvia Woods, who came from the cotton fields of South Carolina, began a restaurant that has become a soul food institution in New York City's Harlem.

Although Woods passed away in 2012, her legacy lives on with family members who continue to operate the well-known eatery. Sylvia's Restaurant was so famous that people began calling Woods the Queen of Soul Food. She had always loved to cook. She used old family recipes to develop her homemade-style food that brought her so much success. However, it was the way she treated her customers—with respect and concern—that kept customers coming back. She often sat down with them to visit, and greeted many by their first names.

Woods bought her restaurant in 1962 with money that her mother received for selling the family farm. What began as a small luncheonette with a seating capacity of 35 grew into a landmark where people from all walks of life—politicians, celebrities, and nearby residents—went for a taste of authentic Southern soul food.

Sylvia Woods *(standing)* and her family made Sylvia's Restaurant in New York City *the* eating establishment for authentic Southern soul food such as smothered chicken and collard greens.

The business has grown to a restaurant that occupies most of a city block and seats 450. Sylvia's has franchises in several airports. Sylvia Woods showed what hard work, determination, and a family's love and respect can achieve.

Competition

One of the driving forces of capitalism, as in sports, is *competition*, which means to do something with the goal of outperforming others. Competition exists in almost every aspect of business. In sports, those who outperform their competition win. In business, the one that outperforms others usually grows and succeeds. Competition is based on freedom of choice and begins when businesses offer products or services, and customers have the choice of buying or not buying. To attract customers, a business will try to offer the best product or service at the best price.

If customers don't buy, the business must improve the product or service, lower prices, or go out of business. If customers buy, the business profits and is able to continue. If the business enjoys great success, rivals probably will emerge because they believe they can capture some of the market. Rivals may offer similar products for better prices. So the first business must continue to improve, be more efficient, and consider strategies such as lowering prices.

For example, if you mowed the average 1,000-square-foot lawn for $25, and attracted many customers, a neighbor might decide to start a lawn care service, too. For a lawn the same size, the neighbor—now your competitor—charges only $20. You may have to lower your prices or offer more services for the $25, or risk losing customers to your neighbor. Customers will look for the best value and service their money can buy.

But customer behavior is difficult to predict because people like different things. That's why they buy different cars of different colors, and different clothes, video games, etc. Some might buy the most inexpensive product even if the quality is not as good as a more expensive product. Others want the best product *and* better service, even if it costs more. Some like a particular brand name but still might switch for a better bargain.

Competition is a key force behind capitalism. It drives companies to do better. That may mean producing a better product for the money, providing more variety, creating a unique product or service, serving a niche market, or any number of elements that make a company's product or service stand out from the rest.

Businesses often use advertising to attract customers to their product or service. They try to portray their product or service as better, cheaper, newer, improved, safer, fancier, and so on. While this is one way to lure customers away from competition, the company must be careful not to exaggerate too much or it could turn customers off.

The Profit Motive

When a business opens, its goal or motive is to earn a profit. A *motive* is a reason for doing something. For example, earning money to live a better life is a motive for people to work. Profit—the money left over after paying bills and wages—is an essential competitive feature of buying and selling in the economic system.

The opposite of profit is loss. *Loss* occurs when it costs more to produce products or provide a service than a company is able to make from sales. In free enterprise, the desire to make profits to benefit the company or for personal gain is called the profit motive.

The ability to earn profits sets the American business system apart from other government-controlled economic systems. In some of these societies, making profits might be considered wrong. But without a profit motive, businesses and individuals lose much of their incentive to invent and improve upon products and services, offer them at the best prices, and continue producing. Profits motivate people to improve their quality of life and buy products they need and want. So, when you read or hear that a company made a $1 million profit, keep in mind that the profit benefits the people who work there, those who have invested in the company, and even customers who can feel confident buying from the company.

Where Does Profit Come From?

Now that you know what profit is, let's learn more about where it comes from. Using a fictitious automaker called American Auto as an example, let's find out how to determine the cost of making 1,000 cars that were sold in the last year and how much, if any, profit was earned. American Auto's accountant, a person who keeps track of a company's financial transactions, would do this by preparing a *profit-and-loss statement*. This statement would show total income from sales, total cost to produce the cars, and the difference of the two to determine either the profit or the loss for a particular period.

So let's take the role of the accountant. You determine that the 1,000 cars sold for $15,000 each. Thus, the income from sales was $15 million. Production costs include wages paid to employees who make the cars and manage the business, the materials used to make the cars, supplies, utilities, advertising, and taxes. Overhead costs include expenses not directly related to making the product, such as rent, insurance, telephone, taxes, heating and air conditioning, and so on.

Most of these costs are used up during production. Materials, supplies, and utilities must be bought and/or replenished as cars are built. Labor is a continuing cost because employees are paid during production. In a way, even taxes are used up because that, too, must be paid at scheduled times.

Another cost is depreciation, which is the cost of wear and tear on tools and machines, and the cost of repairing or replacing them. Depreciation allows a company to spread the cost of the tools and machines over the years of their usefulness. For example, say the company knows that all its tools or machines will last exactly 10 years before needing to be replaced. Each year, then, American Auto allocates (or sets aside) one-tenth of the original cost of its tools as a cost of operating. This reduces the amount of profit that is subject to taxation, thus increasing the profit, which can be distributed as dividends to stockholders. In an actual company, of course, each tool and machine would have a different lifespan.

The accountant gathers the figures and compiles the profit-and-loss statement. A simplified version might look like this:

American Auto Company
Profit-and-Loss Statement
For Month/Day/Year to Month/Day/Year

Revenue		
	Income from Sales	$15,000,000.00
Expenses (Minus cost of production)		
	Labor	$6,000,000.00
	Materials, supplies, utilities	$5,000,000.00
	Overhead	$200,000.00
	Depreciation	$300,000.00
	Total cost of production before taxes	$11,500,000.00
Profit before taxes		$3,500,000.00
Taxes		$1,000,000.00
Net income (Profit)		$2,500,000.00

Income exceeded expenses, so the company earned a profit. But where does the profit go? A company's earnings belong to the stockholders of the company. That's because investors "loaned" the company money when they bought the company's stock. They bought the stock because they were confident the company would be successful and expected their loan to earn dividends. The company pays back investors by issuing what is called *dividends,* which are distributed from the profit.

Profits are distributed to investors in cash or reinvested back into the company (to be discussed later). Stockholders receive shares of the profit because they took a risk when they invested. Competitive business can be risky because it is hard to predict whether customers will buy a company's product. Even long-established companies might not earn profits every year, so investment in new companies poses even bigger risks.

If American Auto were a new company, no one would know whether the public might like its cars. If the public does like them, the company will sell lots of cars and make a profit. If the public doesn't like them, fewer cars will be sold than the number needed to offset the production costs, and the company will post a loss. As long as the company earns a profit, it can pay its stockholders dividends. If there is a loss, stockholders might be paid only a small dividend, or none at all.

If a company can't cover its production costs, it will need to make cost-saving moves, such as selling off machinery, laying off workers, and delaying payments to suppliers. Continued losses could mean that the company will go out of business and the stockholders will lose their investments.

Why might investors want to risk investing in a company rather than putting the money in a savings account, where the money would earn interest and be safe? Because, after studying the company's profit-and-loss statements and its prospects for future growth, people believe the company will prosper. Investors expect a better return on their money than what they could expect to gain elsewhere. People's willingness to invest in companies can be seen as another tool to create jobs and savings for more investments, and to keep American business going and growing.

Stock certificate

Where Does Profit Go?

When companies need more money to grow, they issue (release) *stock,* or shares of the company. Investors can buy the stock, making them among the company's owners. They will be issued stock certificates that specify the number of shares they own. Say a company issues 100 shares of stock at $10 a share. If 10 people each buy 10 shares, each will have invested $100 in the business and will be called a stockholder, or *shareholder*. A stockholder owns shares of the stock, which represent capital (money) in the company.

In most companies, several people are elected by the stockholders to be on the board of directors, which oversees the business. Because the directors are elected, they can be replaced if the stockholders don't like the way they are running the company. Stockholders owning more shares have more votes. For instance, if someone owned 20 shares of the company that issued 100 shares, that person would have twice as many votes as a shareholder who owned 10 shares.

One duty of the board of directors is to decide what happens to company profits. One option is to divide the profit among shareholders according to the number of shares each shareholder owns and then mail dividend checks to the shareholders. However, the board of directors must take into consideration the company's future. Part of that consideration is to make sure the company has savings to use when needed. If part of the company's profit can be saved, then everyone—stockholders and employees—will benefit.

This stock certificate for Ford Motor Company was issued to Henry Ford II, the founder's grandson, who ran the company from 1945 to 1979.

First, a company needs more money to maintain its supply of tools, which wear out or break. A company will eventually have to replace the tools and, due to inflation, the replacements might cost more than the original tools. Basically, inflation causes prices to rise. A tool that originally cost $5,000 might cost $7,000 to replace. That means the company will need to make a larger investment just to stay where it is.

But a company wants to grow and improve its products or services, or else it might lose customers. Developing or improving products and services costs money because research and new tools are needed. A company could issue more stock to raise money, but present stockholders might want to supply the needed capital because they believe in the company's success. Stockholders supply the capital by reinvesting part of the company's profit—dividends—which allows the company to fund increased costs.

So the directors might decide to distribute part of the company's profit in cash and reinvest the rest in the company. This would increase the company's capital and each shareholder's investment. Stockholders would still get their share of the profit, but some of the profit would be in cash and the rest would be in added investment.

By giving the company access to more money to develop and produce better products, the stockholders have increased the likelihood of the company's future profitability. That would mean higher dividends and an increase in stockholder investments.

Profits Make Companies Grow

The more profit a company can make, the more money its shareholders can reinvest. The more money that is reinvested increases the company's ability to produce better products or services, attract more customers, increase income from sales, create more positions, and make a larger profit for the next year.

By being profitable, more people might be willing to invest in the company, which gives the company even more capital and makes it easier to borrow money, if needed. All of these things—more reinvestment, more new investment, and more borrowing power—make it easier for the company to grow and succeed.

A profitable company helps other companies enjoy the same type of success. This happens because the profitable company is able to hire more people, buy more materials from other companies, and upgrade its equipment when necessary. Because it is buying from other companies, those companies grow also.

Sustainability

In recent times, the word "sustainable" has been associated with two distinct meanings in business. The first, and perhaps original meaning, has to do with long-term viability or survivability of a business. The second, and now more common meaning, is about the management of limited natural resources.

Sustainable Business Practices

Because sustainable business practices have to do with the survivability of a business, ethical business practices should be considered. First, care of natural resources is important because if a business runs out of a resource that is essential in manufacturing its product, the business cannot survive. Second, care of employees and customers is necessary. Companies must treat their employees ethically through the use of unbiased hiring and compensation practices, or they may find that no one will be willing to work for them. Also, customers should never be in any danger by using a business's product.

Companies also have an obligation to their investors and/or owners, as well as to government agencies and society. For-profit companies have an obligation to their owners and investors to earn a profit. Of course, this profit should not be earned at any cost but should be earned ethically and in consideration of natural resources, people, etc. Companies are also responsible for representing themselves accurately to government agencies, such as the Internal Revenue Service in the collection of fair taxes and the Environmental Protection Agency to avoid pollution as much as possible.

Understanding Green Marketing

We are green. This company is socially responsible. That product is environmentally friendly. Our business efforts are sustainable. These concepts have become integral parts of organizational operations and marketing strategies. Sustainability, the most current and all-encompassing term, has been defined as an organization's effort to meet corporate objectives and consumer needs in a way that demonstrates continuous improvement toward minimizing negative impact on people and the natural environment.

The term "green marketing" is a colloquial one that may have been coined by Jacquelyn Ottman, author of the book Green Marketing, in the early 1980s. The term describes a company's efforts to address what is more scientifically termed "sustainability and corporate social responsibility." The phrase has also been used to describe all manner of commitment (or lack thereof) to sustainability efforts.

It is true that consumers are fickle and social attitudes toward sustainability may take a back seat to concerns such as terrorism and the economy, but the practices that have already been integrated into industries at all levels cannot be easily changed if efforts to be more sustainable have been made in good faith.

Being Accountable to the Environment

Thriving business produces waste and uses resources. Whether it's an oil company processing finite reserves of oil or a company that uses packaging, businesses have considerable impact on the environment.

The challenge is to reduce the impact on the environment while keeping costs low. Many businesses have resisted environmentally friendly practices because they believe it costs too much. But as Americans become more conscientious, many consumers expect companies to improve upon their environmental record. For instance, product packaging produces waste. The challenge is to develop less wasteful, recyclable packaging that is attractive and also less costly.

Furthermore, businesses that use or sell large amounts of motor oil, cooking oil, tires, batteries, toner cartridges, and other products that contain hazardous materials must collect and properly dispose of these products. The time it takes to organize the disposal, the method used, and the materials needed to do it are costs (expenses) these businesses must factor into their budgets.

Other measures, such as reducing paper use and conserving electricity, save money. Any business should explore cost-saving, environmentally friendly measures when planning its budget.

Private Property and Contracts

Among the reasons so many people come to the United States from other countries are the freedoms enjoyed by Americans, which include the right to own property.

During most of history, personal property, such as horses, jewelry, and clothing, had been of minor importance in comparison to land ownership. There was little regulation over the ownership, sale, transfer, and inheritance of personal property, although land ownership was greatly restricted by governments or ruling families. However, the Industrial Revolution changed this attitude. With the establishment of companies and revenue-producing stocks, personal property became important.

The more success companies have, the more they benefit their communities because they are able to create more positions, pay better wages, and produce more products for people to buy and use. All these things create a higher standard of living.

Freedom vs. License

A U.S. citizen has the legal right to have, use, and dispose of assets (things of value, including property) in whatever legal way the person chooses. This is a basic *freedom*—along with freedom of religion, speech, and the press—granted by our Constitution. This makes our free enterprise system possible because each person is guaranteed the choice to spend, save, or invest his or her earnings.

However, the ability to exercise some aspects of freedom may require *license* to do so. For instance, you have the freedom to pursue various occupations, but you may need a license—permission—from your state to work as, for example, a teacher, electrician, barber, security guard, accountant, or paramedic. The "freedom" you want to exercise may require permission from your employer or religious organization, maybe even your school.

Until recently, and even today in some countries, the average person was limited by law or custom to the amounts and kinds of property he or she could own, buy, inherit, sell, or give away. In some countries, some people also were and are limited to the kinds of work he or she could perform. To escape these and other restrictions (such as religious persecution), millions of people have come to the United States. Early immigrants cleared land for farming, started businesses, and began enjoying freedoms and luxuries they had not been able to enjoy before.

The right to private property let loose a great productive power in the United States. Workers are not restricted to low positions, but can advance in their careers and economic positions. Workers are respected, and they are encouraged to invest their savings and to become more involved in choosing government officials.

Countries that practice different political philosophies from what is practiced in the United States have different views regarding personal property. For instance, the Communist doctrine calls for public ownership of property and for the state (the government) to own the means of industrial production, which includes wealth-generating personal property. But most Communist societies have some private property just as some capitalist governments own property publicly.

These opportunities allow most Americans to enjoy a higher standard of living than people in many other countries can. Americans enjoy modern homes, cars, utilities, good food, safe environments in the workplace, clean water, a good highway system, and public transportation. Many have savings accounts, investments, and health and life insurance benefits.

A person who has the right to own private property also has the right to enter into contracts. A *contract* is a formal or legally binding agreement or promise to do, or not do, something in return for another person's doing, or not doing, something. For example, a contract can be signed for the sale of something. One person agrees with a second person to pay a certain amount for a product the second person has. The second person agrees to relinquish ownership and deliver the product upon payment. Parties cannot enter into a contract for illegal activities. Such a contract is void.

Another type of contract is a lease or rental agreement. A renter, tenant, or lessee signs a contract to agree to pay a certain amount of money each month in return for being allowed to use land, facilities, or equipment owned by someone else (owner). If the business leasing or renting doesn't pay, or if the owner prevents the use of the property, the injured party can go to court and force the other to live up to the terms of the contract.

Many business contracts are formal and complicated. Other contracts are informal and hardly noticeable. For example, if you received merchandise from a store and fail to pay, the merchant can force you to either pay or return the merchandise in good condition. Every business transaction, from one as simple as buying a snack to one as complex as a company issuing stock, is a contract of some type. Contracts are based on trust. Each party trusts the other to do what he or she has promised.

Financial Statements

What Are Financial Statements?

Financial statements for businesses usually include income statements, balance sheets, statements of retained earnings, and statements of cash flows. It is standard practice for businesses to present financial statements that adhere to generally accepted accounting principles (GAAP) to maintain continuity of information and presentation across international borders. Financial statements are often audited by government agencies, accountants, firms, and other entities to ensure accuracy and for tax, financing, or investing purposes. The three main financial statements are the balance sheet, income statement, and cash flow statement.

Balance Sheet

The balance sheet provides an overview of assets, liabilities, and shareholders' equity as a snapshot in time. The date at the top of the balance sheet tells you when the snapshot was taken, which is generally the end of the fiscal year. The balance sheet equation is assets equal liabilities plus shareholders' equity, because assets are paid for with either liabilities, such as debt, or shareholders' equity, such as retained earnings and additional paid-in capital. Assets are listed on the balance sheet in order of liquidity. Liabilities are listed in the order in which they will be paid.

Short-term or current liabilities are expected to be paid within the year, while long-term or noncurrent liabilities are debts expected to be paid after one year.

Balance Sheet

Assets	$ 140,000	Liabilities	
Cash	$ 7,000	Accounts Payable	$ 9,250
Accounts Receivable	$ 12,000	Debt	$ 48,000
Inventory	$ 19,000	Total Liabilities	$ 57,250
Property and Equipment	$ 72,000	Shareholders' Equity	
Total Assets	$ 250,000	Equity Capital	$ 100,000
		Retained Earnings	$ 92,750
		Shareholders' Equity	$ 192,750
		Total Liabilities and Shareholders' Equity	$ 250,000

Income Statement

Unlike the balance sheet, the income statement covers a range of time, which is a year for annual financial statements and a quarter for quarterly financial statements. The income statement provides an overview of revenues, expenses, net income, and earnings. It usually provides two to three years or quarters of data for comparison.

Income Statement

Revenue	$ 225,000
Cost of Goods Sold (COGS)	$ 76,000
Gross Profit	$ 149,000
Expenses	
Salaries and Benefits	$ 23,000
Rent and Overhead	$ 10,000
Depreciation and Amortization	$ 14,000
Interest	$ 3,250
Total Expenses	$ 50,250
Earnings Before Tax	$ 98,750
Taxes	$ 1,500
Net Earnings	$ 97,250

Cash Flow Statement

The cash flow statement merges the balance sheet and the income statement. Due to accounting conventions, net income can fall out of alignment with cash flow. The cash flow statement reconciles the income statement with the balance sheet in three major business activities: operating, investing, and financing. Operating activities include cash flows made from regular business operations. Investing activities include cash flows due to the buying and selling of assets such as real estate and equipment. Financing activities include cash flows from debt and equity. This is where analysts can also find the amount of dividends paid and/or the dollar value of shares the company has repurchased.

Cash Flow Statement

Operating Cash Flow	
Cash Receipts From Sales	$ 140,000
Cash Paid for Expenses	$ 30,000
Cash From Operations	$ 110,000
Investing Cash Flow	
Sale of Property and Equipment	$ 40,000
Purchase of Property and Equipment	$ 32,500
Cash From Investing	$ 7,500
Financing Cash Flow	
Borrowing Cash From Bank	$ 30,000
Payment on Loans	$ 70,000
Cash From Financing	$ (40,000)
Net Increase in Cash	$ 77,500

Business Ethics

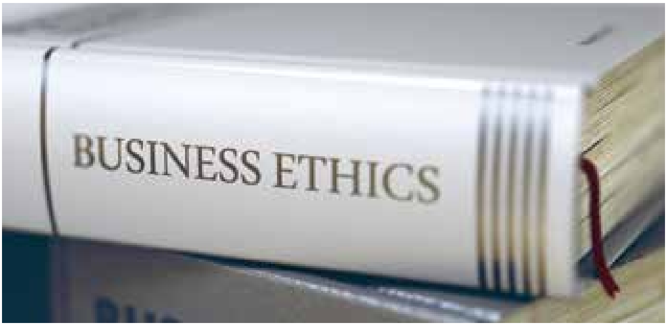
Investopedia defines business ethics as "the study of appropriate business policies and practices regarding potentially controversial subjects including corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities."

Ethics do not apply only to these high-level areas, however. At its most basic, ethics are simply a set of moral principles that guides one's behavior. On an individual level, these principles could include honesty, integrity, and respect for others. For a corporation, those principles could include corporate compliance, environmental protection, and the way it treats its employees. Business ethics apply to everyone, whether they work for themselves or a huge global company.

Laws govern many aspects of running a business, but business ethics are not just about following the law. Ethical employees and businesses seek to eliminate conflicts of interest and try to do what is right.

It is not always easy to do the right thing, but following the Scout Oath and Scout Law will serve you well.

The first point of the Scout Law is "A Scout is trustworthy." The Scout Law, as everything else in Scouting, helps you to become a responsible person. Every businessperson should be trustworthy, thrifty, friendly, and courteous.



Credit and Banking

Nowadays, Americans are doing more business with credit and debit cards and using less cash.

Using credit to make purchases and making prompt payments is an excellent way to establish a good credit rating. Having a good credit rating is important because it shows that people can trust you in financial matters. Checks, credit cards, debit cards, loans, and mortgages are the most common forms of credit.

When you open a checking account at a bank and deposit money in it, you receive a book of checks. When you pay for something by check, you sign the check and include the proper dollar amount along with the name of the person or business you are paying. When that person or business deposits the check at a bank, that bank is allowed to transfer the amount of money that is written on the check from your bank account to the person's or business's account.

A check is a form of cash because it represents an amount of money you actually possess. But it is safer than cash because only the person or business to whom you write the check can cash it and collect the money. When you write a check, most businesses will want to see some identification to make sure the check belongs to you. Also, you must have enough money in your bank account to cover the amount written on the check. If not, the bank will charge you a fee (called an overdraft charge), and will return the check to the person or business, who might charge you a returned-check fee.

If you don't have enough money in your account to cover the amount of the check, you have written a bad check. Some checking accounts offer overdraft protection, so that if you don't have the money to cover the check, the bank automatically loans you the amount needed to pay the person or business. Banks charge interest for that service, but if the loan is paid back in a timely manner, it won't cost as much as the fee for writing a bad check.

Intentionally writing a bad check and failing to make good on it is considered theft. If the person or business that received the bad check files charges, you will have to pay the amount of the check plus additional fees. Failure to pay can result in arrest.

A charge account with a store or other business lets you pay at a later date for merchandise or services purchased now. Using a credit card from a store or business shows that you have a charge account there. Other credit cards issued by banks and credit card companies can be used in any store that accepts them. Often, they are accepted worldwide.

Credit cards are swiped through a machine or, if they are chip-enabled, inserted into a chip reader, which notifies the bank or credit card company of your purchases. Normally, you have a credit line, which means you are allowed to charge up to a certain amount. If you go over that limit, your purchases might be denied by the store or the bank or credit card company. On a monthly basis, you will receive a bill for the total amount of charges you made.

If you pay off only part of your credit card balance, you will be charged interest on the part you didn't pay, and it will be added to your next monthly payment.

Debit cards are a cross between checks and credit cards. Like checks, debit cards draw on money you actually have in your checking account. As such, you have to keep good records on your spending. However, as cards, they can be used almost anywhere that accepts credit cards, including foreign countries, and they are convenient for use at ATMs and for making online purchases.

To notify the bank or credit card company of your purchases, credit cards and debit cards are swiped through a machine or, if they are chip-enabled, inserted into a chip reader. Increasingly, card information can be stored on a mobile device and shared securely to make card purchases using biometric verification (e.g., fingerprint or face identification).

An installment purchase is a type of credit used usually when buying an expensive item such as a car, washer and dryer, or television. You sign an installment purchase agreement with the business, promising to pay a certain amount of money each month

or week until the bill is paid in full. The seller adds a service or interest charge to the price of the item to allow for this extended payment privilege. Sometimes it is cheaper to get a loan through a bank that charges a lower interest rate; you can pay off the seller all at once and make your monthly payments to the bank.

On some large purchases, you might have to offer collateral to the seller. This means that, to complete the deal, you sign over to the seller or lender the ownership of property or goods that you own. This protects the seller or lender in case you fail to repay the loan. If you don't repay, the collateral is forfeited to the lender. If you do repay the loan, you retain ownership of your collateral.

A mortgage is a type of collateral loan. If you are unable to pay the full price for a house, a bank or mortgage company might lend you all or part of the money in return for your signing a mortgage contract. This contract gives the bank or mortgage company ownership of the house until you have repaid the loan according to the terms of the contract. The bank or mortgage company will charge you interest on the amount of the loan during the life of the contract.

The federal government also makes available loans to students for school and to individuals buying homes. The government has strict laws about who can offer loans and

Money deposited in national banks is insured by the Federal Deposit Insurance Corporation (FDIC), a government agency created under the Banking Act of 1933 to insure deposits in case a bank fails. The coverage limit for most deposit accounts is $250,000.

the terms under which they can lend. These laws protect both the lenders and borrowers.

Banks rely on lending, or offering credit, to earn profits. Banks provide checking and savings accounts and, besides loaning money to individuals, loan money to businesses to pay for large purchases. Lending money to businesses helps them grow and benefits the entire community.

The money that banks lend is the money being held for their depositors. When you deposit money in a checking or savings account, the bank guarantees that you can have it back when you want it. But while it is at the bank, the bank will lend the money to other people or businesses and collect interest from them. This interest is one way the bank produces income so that it can pay its expenses and pay you interest on your savings account. The bank's profits will go to its shareholders.

The United States has a central bank called the Federal Reserve System. Established by the Federal Reserve Act of 1913, the Federal Reserve helps keep the country's financial system stable. Without regulation, our economy would grow unevenly and experience wide and frequent swings between economic depression and prosperity.

The Federal Reserve Board is best known for its influence on interest rates. It can loosen money supplies by lowering interest rates, thus making loans more appealing, or it can tighten the money supply by raising interest rates. Thus, it manages the amount of money available at any one time in the United States financial system. The Federal Reserve can influence money supplies in other ways, too, such as buying U.S. government securities (stock) or changing the percentage of deposits that must be maintained on reserve at the Federal Reserve banks.

You can see that the government can play a big role in how a bank might conduct business and how much it might charge for loans. While banks have long offered other services, such as safe deposit vaults where valuables, such as documents and jewels, can be stored safely and privately, they also have expanded services to include individual retirement accounts and stock investments.

Money and Inflation

Before money became the medium of exchange, people exchanged goods and services for other goods and services. This type of transaction is called the *barter system*. Although this system is still used in some countries and in some instances in the United States, most people receive money for the goods and services they provide. Goods and services are priced according to the standard of value that money represents, such as the dollar in the United States.

When prices continually increase for various reasons, the value, or purchasing power, of money is reduced. This is called *inflation*. For example, in the 1970s, a new car might have sold for $5,000. Today, a new car might sell for $25,000 or much more. That means the dollar is not worth as much as it was in 1970. For example, if a product doubles in price, then the value of the dollar has been reduced in half.

There are several causes of inflation. One is called *demand-pull*. That's when total demand exceeds existing supplies, and people are willing to pay more for the limited amount of goods. That's why a popular electronic game system costs more when first introduced to the public, and the price drops after a while. Forcing price increases also causes increases in operating and financing costs and the cost of materials. Demand-pull inflation increases wages, too, because workers want to maintain their buying power.

Another explanation is called *cost-push,* when businesses raise prices to cover total expenses and to preserve profit margins. Again, workers will want more money to help maintain their purchasing power. If these factors continue, the wage-price spiral continues. *Deflation* occurs when these spiral effects are reversed. Another type of cost-push inflation occurs when a single business or a few businesses control a particular product or industry. Prices can increase as a result of the policies and decisions of these groups. When a single business controls a product or industry, it is called a *monopoly*. U.S. antitrust laws help prevent monopolies from forming.

Comparison Shopping in 1992 and 2022

This chart shows what some common items and necessities cost in 1992 and their cost in 2019.

	Item	**Cost in 1992**	**Cost in 2022**
	Bacon, 1 lb.	$1.87	$7.22
	Gasoline, 1 gallon regular unleaded	$1.20	$3.52
	White bread, 1 lb. loaf	74 cents	$1.55
	Ground chuck, 1 lb.	$1.91	$5.49
	Iceberg lettuce, 1 head	66 cents	$1.79

Another theory says that inflation occurs because consumers expect prices to increase. As a result, a high demand for goods and services will continue because people believe their purchasing power is better in the present than it will be in the future. And workers will demand higher wages so they can meet the expected increase in prices. When the rate of inflation increases each year by 10 percent or more, it can damage a country's economy. Prices rise faster than wages, the standard of living might drop, people might quit buying as much, and a recession or depression might occur.

The inflation rate is measured by a device called an *index,* which compares present prices against past prices. Three well-known ones are the Consumer Price Index, which measures monthly changes in the prices of commonly used goods and services; the Standard and Poor's 500 Index®, which keeps tabs on top U.S. corporations; and the Producer Price Index, which measures the average change over time in selling prices by domestic producers of goods and services.

A *cartel* is a type of monopoly organized by groups that sell the same type of product. The goal is to dominate the market for that product by fixing prices and limiting competition by smaller firms.

U.S. Department of Labor

The Department of Labor (DOL) was established by President William Taft on March 4, 1913. The DOL is a federal agency whose mission is to "foster, promote, and develop the welfare of the wage earners, job seekers, and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits and rights," according to its website. With the changing work environment, including the use of technology, the agency must create labor laws to create a safer and fair workplace for both the employee and the employer. Although the agency has enforced thousands of regulations, the following are among the most notable.

Fair Labor Standards Act (FLSA)

The Fair Labor Standards Act (FLSA) prescribes standards for wages and overtime pay, which affect most private and public employment. The act is administered by the Wage and Hour Division. It requires employers to pay covered employees who are not otherwise exempt at least the federal minimum wage and overtime pay of 1½ times the regular rate of pay. For nonagricultural operations, it restricts the hours that children under age 16 can work and forbids the employment of children under age 18 in certain jobs deemed too dangerous. For agricultural operations, it prohibits the employment of children under age 16 during school hours and in certain jobs deemed too dangerous.

Occupational Safety and Health Act (OSH Act)

The Occupational Safety and Health (OSH) Act is administered by the Occupational Safety and Health Administration (OSHA). Safety and health conditions in most private industries are regulated by OSHA or OSHA-approved state programs, which also cover public sector employers. Employers covered by the OSH Act must comply with the regulations and the safety and health standards put forth by OSHA. Employers also have a general duty under the OSH Act to provide their employees with work and a workplace free from recognized, serious hazards. OSHA enforces the act through workplace inspections and investigations. Compliance assistance and other cooperative programs are also available.

Family and Medical Leave Act (FMLA)

Administered by the Wage and Hour Division, the Family and Medical Leave Act (FMLA) requires employers with 50 or more employees to give up to 12 weeks of unpaid, job-protected leave to eligible employees for the birth or adoption of a child or for the serious illness of the employee or a spouse, child, or parent.

Employee Retirement Income Security Act (ERISA)

The Employee Retirement Income Security Act (ERISA) regulates employers that offer pension or welfare benefit plans for their employees. Title I of ERISA is administered by the Employee Benefits Security Administration and imposes a wide range of requirements on those responsible for pension and welfare benefit plans and on others having dealings with these plans. These provisions preempt many similar state laws. Under Title IV, certain employers and plan administrators must fund an insurance system to protect certain kinds of retirement benefits, with premiums paid to the federal government's Pension Benefit Guaranty Corporation.


OLD
COUNTRY STORE

Insurance

Throughout history, people have tried to protect themselves against trouble, famine, and disease by offering gifts to gods and other spirits. In modern times, there are more proven ways to avoid trouble. People can now buy insurance to help reduce financial losses from fire, theft, injury, some of the risks faced in everyday life, and death.

People buy insurance contracts—*policies*—from a variety of sources. In industrialized countries, most everyone has some type of insurance. Some laws require car owners to buy insurance before driving on public roads. Lenders, such as banks, require anyone seeking a loan for the purchase of a car or home to also purchase insurance for the property.

Business partners often take out life insurance on each other to make sure their business will succeed if one partner should die.

Although insurance cannot prevent accidents and calamities from happening, it can help reduce each person's risk of financial loss. It does this by applying the law of probability—a mathematical certainty that a definite number of people will suffer a certain kind of loss within a given time frame.

For example, say there are 1,000 homes in a neighborhood, each worth $120,000. History might show that an average of one house per 1,000 has been destroyed by fire each year, making it probable that one house will again burn each year in the future. No one knows which house, and none of the homeowners can afford to keep $120,000 on hand just in case it might be needed to rebuild the house. Instead, each of the 1,000 homeowners puts a certain amount of money into a fire insurance fund. If one house burns, that fund is used to help rebuild the house. That way, everyone is protected from a financial loss due to fire, with the cost to each homeowner being relatively small.

Many companies will buy insurance on the lives of important employees. They do this because the unexpected death of a company officer could force the company to change important plans for its future.

Insurance companies function in much the same way. They collect fees, or *premiums,* from people who might share the same type of risk, and then they pay out agreed-upon amounts to those who suffer that kind of loss. Premiums are determined with the help of experts called *actuaries*. Actuaries apply theories of probability and assemble statistics about past losses to calculate what future losses might be. On the basis of these statistics, rates for various types of insurance are determined along with the amount of money the insurance company needs to have in reserve to settle expected claims.

Fire insurance actuaries are calculated on factors such as the number of recent fires in a community; the dollar loss from each fire; the age of the insured building; the building's material, such as wood or brick; its location, and how close a fire station is.

The cost of premiums for insurance against theft are based on the value of the insured article or articles, its attractiveness to thieves, and whether something is kept in a bank vault or at home. Most individuals and businesses carry insurance against the risk of financial losses from fire and theft.

Life insurance pays a sum of money to a person's *beneficiary* or *beneficiaries* (those who have been named to receive payment) after the person dies. Beneficiaries usually are members of the insured person's family. The premiums for life insurance again are determined by probability. Actuaries determine the life expectancy of a person. Because a younger person is expected to live longer than an older one and will be able to pay more premiums, the premiums for a younger person will be cheaper.

Liability insurance protects a person or company against claims by someone who is injured on the person's or company's property, or injured as a result of malpractice. Doctors, psychologists, and other health professionals purchase liability insurance.

Automobile insurance can cover many risks, such as damage from collision, fire, and theft, and accident liability. Most auto policies include *deductibles*. For example, if a policy has a $200 deductible, the car owner would pay the first $200 to have anything repaired from an accident, theft, or fire. The insurance company would pay the rest of the expense. Having a deductible will lower the premium. The higher the deductible, the lower the premium will be, but the more the person will pay in times of loss.

Premiums for medical and hospital expenses are determined by the cost of the care that the policyholder and his or her family members—*dependents*—are likely to need. Most policies cover only certain medical and hospital expenses and limit the length of time during which such charges will be paid. A big change in the health-care industry began in the 1980s, when many people switched from fee-for-service plans to *managed care services.* Many employers began offering their employees managed care plans because these plans emphasized preventive care and were generally less expensive. There are a variety of managed care plans available that offer both flexibility and savings for the employee and employer.

Many employers pay all or most of the insurance premium for their employees. This is considered an employee *benefit.*

Most employers also are required by law to carry insurance to protect their employees against certain losses from on-the-job accidents, illness, or unemployment. This accident and health insurance is called workers' compensation and often is handled by the state government rather than an insurance company. Injured workers are entitled to receive benefits until they recover. If they suffer permanent disability and are unable to work, or are killed while working, they or their dependents receive lifelong benefits.

Unemployment insurance pays a fixed amount of money each week for a limited time to people who were dismissed through no fault of their own. People receiving such benefits are required to seek other employment while drawing payments.

Many insurance companies sell several types of *annuities,* which are like savings accounts. The insured person pays premiums or provides a lump sum to an annuity. In return, the insurance company pays the person a fixed annuity (income) for a certain number of years, depending on the type of annuity the person has. Many people purchase annuities as a way to save for retirement. Businesses also purchase annuities to pay pensions to retired employees.

Social Security is a type of annuity program administered by the federal government. Employees and employers pay equal contributions to the government, based on an employee's rate of pay. The government issues a Social Security number to each person to track earnings and tax payments. One can begin drawing Social Security at age 62 but needs to be at least 67 years old, if born after 1960, to collect the full retirement benefit. The amount is based on the person's rate of pay and how long the person worked. A person also can collect benefits before retirement age if the person becomes disabled and can no longer work. Social Security covers most workers in the United States, as well as their spouses, widows or widowers, and dependent children.

In more recent times, government-provided medical insurance—*Medicare* for the elderly and *Medicaid* for the needy—has been added and is under the direction of the U.S. Department of Health and Human Services.

Insurance is a critical element of American business. Besides calculating probable losses, collecting premiums, and handling claims, insurance companies invest to earn dividends and interest, which helps lower premium rates. They also help pay for new housing, and educational and environmental projects.

Insurance companies lead campaigns to reduce or eliminate accidents on the highway, in homes, and at work. Fewer accidents help companies keep premiums low.

American Business Resources

Scouting Literature

American Labor, Citizenship in the Nation, Citizenship in the World, Communication, Digital Technology, Entrepreneurship, Law, Personal Management, and *Salesmanship* merit badge pamphlets

With your parent or guardian's permission, visit Scouting America's official retail site, **scoutshop.org**, for a complete list of merit badge pamphlets and other helpful Scouting materials and supplies.

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Organizations and Websites

BetterInvesting
P.O. Box 220
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Toll-free telephone: 877-275-6242
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International Association of Better Business Bureaus
3033 Wilson Blvd., Suite 600
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bbb.org

Investopedia
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Junior Achievement My Way (Student Resources)
jamyway.org

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Notes

Notes

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