

Business

A Changing World

Fifth Edition



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**BUSINESS: A CHANGING WORLD**

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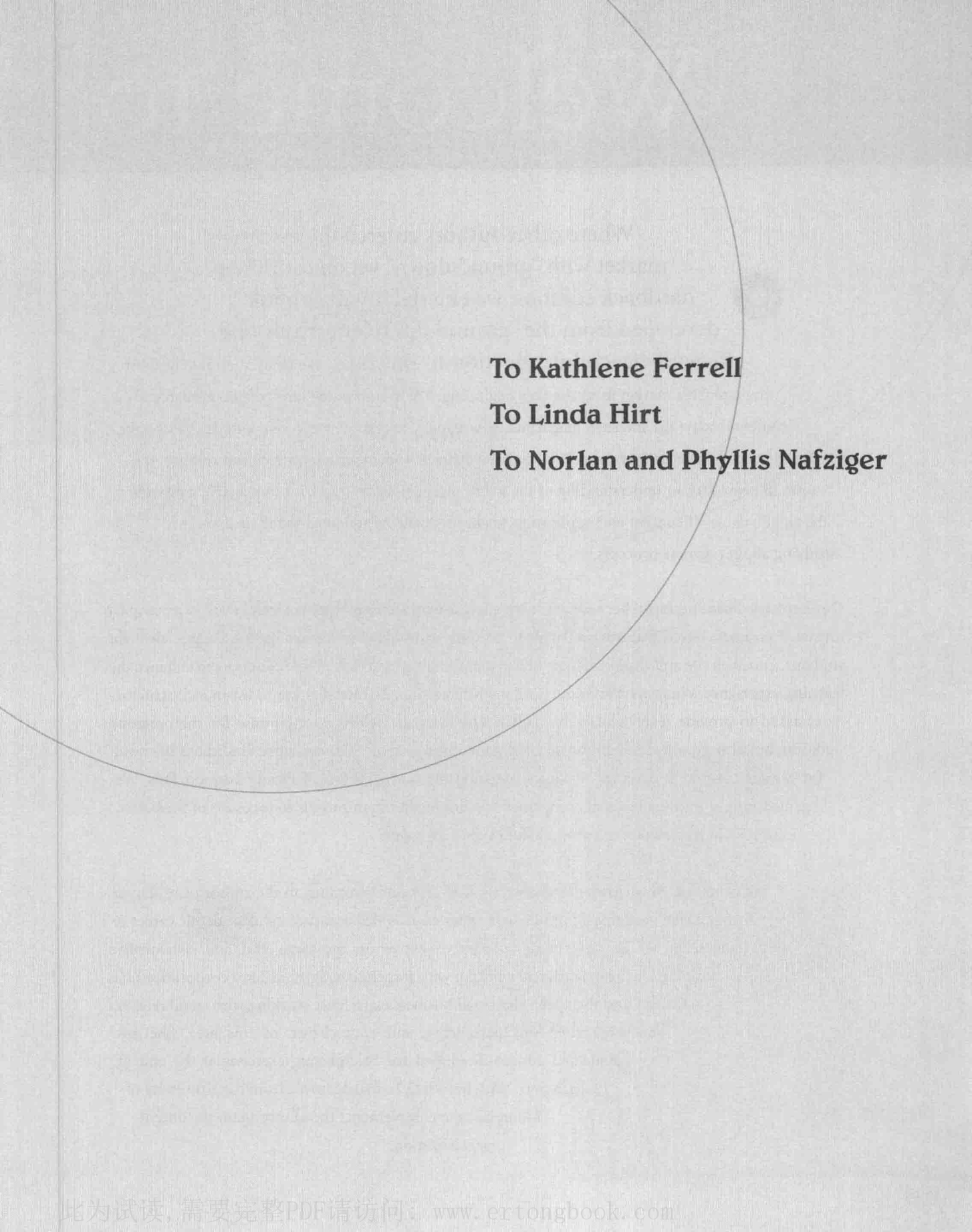
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Business

A Changing World



To Kathlene Ferrell

To Linda Hirt

To Norlan and Phyllis Nafziger

Welcome to



Where other authors entered the essentials market with “ground down” versions of their hardback editions, we entered it with a book developed from the “ground up” to effectively and efficiently teach Introduction to Business. We focused on the needs of the essentials market from the very beginning. There is so much information available to students today: the Internet, magazines, newspapers, television, radio, encyclopedic textbooks, trade books—the list is endless. You can overwhelm a student with too much information too soon in providing an understanding of the world of business. Our goal is to selectively provide the right balance of content and application to engage students and heighten their interest in studying about business concepts.

Our book has been successful because we provide a real-world, comprehensive framework in a compact format. Examples, boxed features, and video cases are up to date and make business come alive for students. Our Web site and supplementary classroom teaching materials provide support to enhance the learning experience. When we started revising the fifth edition, 24 Introduction to Business instructors were asked to provide reviews of each chapter. This analysis yielded strong praise for the previous edition, but also provided directions for continued improvement. The consensus indicated the need for greater balance in coverage of topics, avoiding the overemphasis of trendy business fads. We gained insight into the types of companies and nonprofit organizations to focus on in the boxes, examples, and cases that are most useful in the classroom.

We would like to welcome Linda Ferrell, University of Wyoming, to the author team. Linda brings a rich background of business experience as well as a successful academic career to the team. As an advertising account executive on the Pizza Hut and McDonald's accounts, her experience in working with franchisees, agencies, and corporations has filtered into the book. Her small business experience working with small retailers has broadened our perspective and appreciation of this area. She also pioneered and co-developed the role-playing exercises at the end of each part. With her Ph.D. in management from the University of Memphis, she complements the author team in content specialization.

“ground up”

the Fifth Edition

There have been many dramatic changes in business since the fourth edition was published. We have learned that **the Internet and e-business** continue to evolve, but have not completely reshaped the world of business. We explore Google's success in e-commerce and its "dutch auction" method of selling its stock. The interface between business and government has become even more significant as government policies have affected interest rates, regulations, and entire industries (such as accounting). The ramifications of the **Sarbanes-Oxley Act and corporate governance** are integrated at the appropriate level for this course. At the moment, the dramatic **growth of developing countries** such as China is having a tremendous impact on the prices of commodities and on global competition. **Outsourcing** has become a popular way for businesses to stay competitive, but is controversial among workers and communities negatively affected by such decisions. Companies such as IBM are examined to understand the business rationale on outsourcing as well as the role of countries such as India in the outsourcing debate. These as well as many other evolving issues are carefully addressed in the fifth edition.

One thing we've learned over the last few years is that business has to be open and fair to all stakeholders, including investors, employees, customers, and members of society. We explore the **Enron, WorldCom, and Parmalat business failures** that affected many of us. On the other hand, we look at the **highly responsible acts of companies such as Hershey Foods, Starbucks, and Home Depot**. Introduction to Business students need to understand that most businesses are responsible and have value systems that encourage and even require ethical and responsible conduct. On the other hand, the conduct of some business leaders and their organizations has damaged the reputation of the world of business. Students need to discuss and understand these events to be able to defend business and develop as ethical business leaders. The fifth edition integrates these concerns into every chapter in content, examples, and boxes. We have written a supplement for instructors on teaching business ethics in Introduction to Business.

Our hope is that all of our readers, students and instructors alike, find *Business: A Changing World* to be what we have striven to make it: the best value available for helping to teach — and learn — **Introduction to Business.**

—O.C., Geoff, Linda

Created from the ground up,

The best selling paperback text on the market, *Business: A Changing World* was built from the ground up—that is, developed and written expressly for faculty and students who value a brief, flexible, and affordable paperback with the most up-to-date coverage available.

Conversly, most brief Intro to Business textbooks on the market today are simply “ground-down” versions of much longer hardcover books. None of these books is truly designed to meet the needs of students or instructors; they’re afterthoughts, products chiefly designed to leverage existing content, not to help you teach your course.

With market-leading teaching support and fresh content and examples, *Business: A Changing World* offers just the mix of currency, flexibility, and value that you need. It is the fastest-growing book—and the best value available—in the brief Introductory Business market.

What sets Ferrell/Hirt/Ferrell apart from the competition? An unrivaled mixture of current content, topical depth, and the best teaching support around.

The Freshest Topics and Examples



Because it isn’t tied to the revision cycle of a larger book, *Business: A Changing World* inherits no outdated or irrelevant examples or coverage. Everything in the fifth edition reflects the very latest developments in the business world, from Google’s “dutch auction” approach to selling its stock, to the controversy over outsourcing. In addition, ethics continues to be a key issue and Ferrell uses “Consider Ethics and Social Responsibility” boxes to instill in students the importance of ethical conduct in business.

Just Enough of a Good Thing



It's easy for students taking their first steps into business to become overwhelmed. Longer books try to solve this problem by chopping out examples or topics to make ad hoc shorter editions. *Business: A Changing World* carefully builds just the right mix of coverage and applications to give your students a firm grounding in business principles. Where other books have you sprinting through the semester to get everything in, Ferrell allows you the breathing space to explore topics and incorporate other activities that are important to you and your students.

Teaching Assistance that Makes a Difference

The first and often most serious hurdle in teaching is engaging your students' interest, making them understand how textbook material plays a very real role in real business activities. The instructor's material for *Business: A Changing World* is full of helpful resources that enable you to do this, including detailed teaching notes and additional material in the Instructor's Manual, even for each text part's role-playing exercises. Furthermore, the new **Active Classroom Resource Manual** is loaded with additional team projects, cases, and exercises.

There's much more to ***Business: A Changing World***, and much more it can do for your course. To learn about Ferrell's great pedagogical features and top-notch ancillaries, keep reading.

not ground
down

Getting a Handle on Business

Business: A Changing World's

pedagogy helps your students get the most out of their reading, from handy outlines at the beginning of the chapter to a range of questions and exercises at the end of it.

Chapter Outlines

These provide a useful overview of all the topics covered in the chapter, giving students a sneak preview of what they'll be learning. Special expanded outlines are available on the book's Online Learning Center (see page xvii).

CHAPTER OUTLINE

Introduction
Organizational Culture
Developing Organizational Structure
Assigning Tasks
 Specialization
 Departmentalization
Assigning Responsibility
 Delegation of Authority
 Degree of Centralization
 Span of Management
 Organizational Layers
Forms of Organizational Structure
 Line Structure
 Line-and-Staff Structure
 Multidivisional Structure
 Matrix Structure

Organization, Teamwork, and Communication

OBJECTIVES

After reading this chapter, you will be able to:

- Define organizational structure and relate how organizational structures develop.
- Describe how specialization and departmentalization help an organization achieve its goals.
- Distinguish between groups and teams and identify the types of groups that exist in organizations.
- Determine how organizations assign responsibility and delegate authority.

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- Determine how organizations assign responsibility for tasks and delegate authority.
- Compare and contrast some common forms of organizational structure.
- Describe how communication occurs in organizations.
- Analyze a business's use of teams.

Chapter Objectives

These appear at the beginning of each chapter to provide goals for students to reach in their reading. The objectives are then used in the "Review Your Understanding," the summary at the end of each chapter, and help the students gauge whether they've properly learned and retained the material.

CHAPTER OUTLINE

Introduction
Organizational Culture
Developing Organizational Structure
Assigning Tasks
Responsibilities
Accountability
Assigning Responsibility
Department of Authority
Department of Information
Department of Management
Department of Finance
Formal Organizational Structure
Job Structure
Line and Staff Positions
Multidivisional Structure
Matrix Structure
The Role of Groups and Teams in Organizations
Communication
Team Function
Formal Communication Channels
Informal Communication Channels
Motivation
Motivational Management

Organization, Teamwork, and Communication

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NASA Looks Inward Before Going Back to the Stars

After the space shuttle Columbia broke up on reentry in 2003, killing off the shuttle program, the National Aeronautics and Space Agency (NASA) spent more than a year reexamining itself as well as studying the circumstances surrounding the catastrophe in an effort to prevent future accidents in the space program. Shortly after the shuttle's 28th mission, NASA was given a new mandate by President George W. Bush to return humans to the moon, even while it continued to oversee the construction of the International Space Station and its ongoing program of unmanned explorations of nearby planets. To address these challenges, NASA was confronted with the need for an attitude adjustment.

In addition to careful analysis of the Columbia disaster, NASA employed the consulting firm Behavioral Science Technology (BST) to assess what role the agency's values and culture might have played. The consulting firm found that the agency's "can-do" culture may have stifled employees' willingness to speak out about concerns that ultimately led to the destruction of the Columbia. According to Jan Watters, a veteran of six ethics missions, said, "There are a lot of people who won't speak up. They were afraid of being rendered ineffective, which at NASA is the equivalent of being fired." A survey of NASA's 18,000 employees found many who shared that view.



Enter the World of Business

Chapter-Opening Vignette

These anecdotes neatly illustrate the real-world implications of the business issues students will encounter in their reading. A "Revisit the World of Business" segment at the end of the chapter requires students to return to the Opening Vignette to answer follow-up questions, calling on the insight they've gained from reading the chapter.



Solve the Dilemma Quest Star in Transition

Quest Star (QS), which manufactures quality stereo loudspeakers, wants to improve its ability to compete against Japanese firms. Accordingly, the company has launched a comprehensive quality-improvement program for its Iowa plant. The QS Intracommunication Leadership Initiative (ILI) has flattened the layers of management. The program uses teams and peer pressure to accomplish the plant's goals instead of multiple management layers with their limited opportunities for communication. Under the initiative, employees make all decisions within the boundaries of their responsibilities, and they elect team representatives to coordinate with other teams. Teams are also assigned tasks ranging from establishing policies to evaluating on-the-job safety.

However, employees who are not self-motivated team players are having difficulty getting used to their peers' authority within this system. Upper-level managers face stress and frustration because they must train workers to supervise themselves.

1. What techniques or skills should an employee have to assume a leadership role within a work group?
2. If each work group has a team representative, what problems will be faced in supervising these representatives?
3. Evaluate the pros and cons of the system developed by QS.

Solve the Dilemma

These boxes give students an opportunity to think creatively in solving a realistic business situation.

Explore Your Career Options

These end-of-chapter features offer valuable advice on a wide spectrum of business career choices.

Explore Your Career Options Flexibility First!

Most business school students major in marketing, finance, accounting, management information systems, general management, or sales. Upon graduation, they generally expect to be hired by a company to do more of whatever it is they were trained to do as a student. For example, an accounting major expects to be an accountant. However, depending upon the way the company is organized, the roles played by the employees will differ.

If you are hired by a large, divisionalized company, you might expect to practice your profession among many others doing the same or similar tasks. You are likely to learn one part of the business fairly well but be completely uninformed about other departments or divisions. A wise employee in this situation will learn to request occasional cross-training in other divisions to learn all aspects of the business.

may find that you are for which you were employees are often to make the organization can come as a shock cover that, in addition to doing bookkeeping, you may find that you are

Likewise, employees may find that the core skills learned in school may find that you are not an expert in engineering, computer programming, or the new

Getting a Handle on Business

These features, scattered liberally throughout the book, use real and often familiar companies to highlight various issues of importance in business today.

Consider Ethics & Social Responsibility



Consider Ethics & Social Responsibility

Ethics in business continues to be a major public concern, and it is vital for students to understand that unethical conduct hurts investors, customers, and indeed the entire business world. These features highlight the importance of ethical conduct and show how businesses can serve a vital, positive function in their communities.

Think Globally



Think Globally

The global economy is important to more than large multinationals these days: issues of economics, culture, language and more can affect all levels of domestic business, and Think Globally boxes encourage students to keep their eyes on the big picture.



Embrace Technology

Business technology means more than computers. From cell phones and PDAs to sophisticated project management and inventory tracking systems, Embrace Technology boxes teach students just how pervasive technology is throughout the business world.

Embrace Technology

Growing a Business



Growing a Business

New to the fifth edition, this feature highlights entrepreneurial opportunities, showing the issues and obstacles in building a venture from the ground up.



Responding to Business Challenges

These boxes illustrate how businesses overcome tough challenges and provide an excellent vehicle for stimulating class discussions.

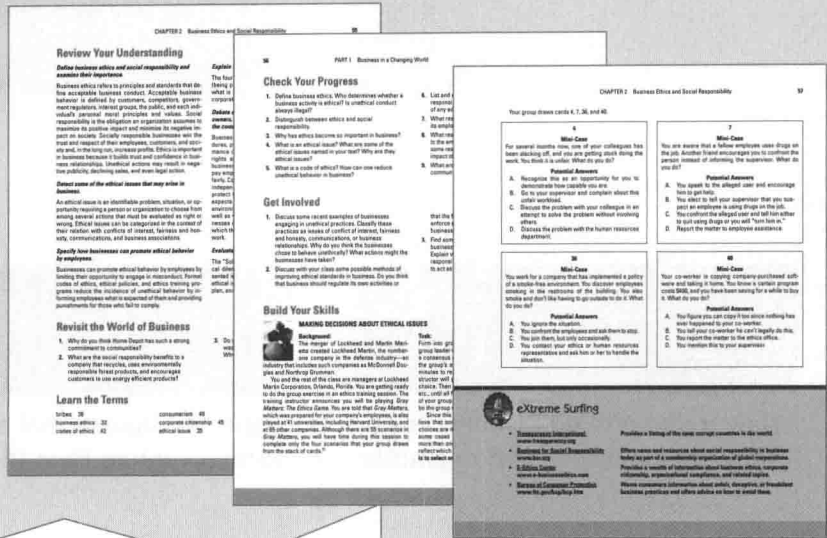


Enhance Business Productivity

Valuable tips and insights on one issue that's vital to everyone at all levels of business.

End-of-Chapter Material

Whether your students discover it on their own or you make it an integral part of your classroom and homework assignments, the end-of-chapter material provides a great opportunity to reinforce and expand upon the chapter content.



Review Your Understanding

Define marketing and describe the exchange process.

Marketing is a group of activities designed to expedite transactions by creating, distributing, pricing, and promoting goods, services, and ideas. Marketing facilitates the exchange, the act of giving up one thing in return for something else. The central focus of marketing is to satisfy needs.

Specify the functions of marketing.

Marketing includes many varied and interrelated activities: buying, selling, transporting, storing, grading, financing, marketing research, and risk taking.

Explain the marketing concept and its implications for developing marketing strategies.

The marketing concept is the idea that an organization should try to satisfy customers' needs through coordinated activities that also allow it to achieve its goals. If a company does not implement the marketing concept by providing products that consumers need and want while achieving its own objectives, it will not survive.

whose needs and wants a company focuses its marketing efforts). Some firms use a total-market approach, designating everyone as the target market. Most firms divide the total market into segments of people who have relatively similar product needs. A company using a concentration approach develops one marketing strategy for a single market segment, whereas a multisegment approach aims marketing efforts at two or more segments, developing a different marketing strategy for each.

Investigate how marketers conduct marketing research and study buying behavior.

Carrying out the marketing concept is impossible unless marketers know what, where, when, and how consumers buy; marketing research into the factors that influence buying behavior helps marketers develop effective marketing strategies. Marketing research is a systematic, objective process of getting information about potential customers to guide marketing decisions. Buying behavior is the decision processes and actions of people who purchase and use products.

Summarize the environmental forces that affect business decisions.

Review Your Understanding

Are your students sometimes unsure whether they've properly absorbed the chapter material? This feature resummaries the chapter objectives, leaving students in no doubt of what they're expected to remember.

Revisit the World of Business

These exercises refer to the chapter opening vignettes (see page xi) and ask students to answer more in-depth questions using the knowledge they gained in their reading.

Revisit the World of Business

- Which organizational factor contributed most to the Columbia disaster at NASA?
- In what way did the organizational culture contribute to the disaster?

Learn the Terms

accountability	236	group	242	project teams	24
centralized organization	237	line-and-staff structure	239	quality-assurance circles	245
committee	243	line structure	239	responsibility	236
customer relationship management	240	matrix structure	241	stakeholder	240
decentralized organization	237	multidivisional structure	240	total quality management	240

attempting to restructure to a team environment the material presented in this chapter, to evaluate the firm's efforts and make for resolving the problems that have de-

- How can NASA harness its "can-do" spirit to create safer missions and beyond?

...NOW account... regular checking
accounts. In which type of account and in what
institution would you deposit your money? Why?

Build Your Skills



MANAGING MONEY

Background:

You have just graduated from college and have received an offer for your dream job (annual salary: \$35,000). This premium salary is a reward for your hard work, perseverance, and good grades. It is also a reward for the social skills you developed in college doing service work as a tutor for high school students and interacting with the business community as the program chairman of the college business fraternity, Delta Sigma Pi. You are engaged and plan to be married this summer. You and your spouse will have a joint income of \$60,000, and the two of you are trying to decide the best way to manage your money.

Task:

Research available financial service area, and answer the following questions.

1. What kinds of institutions and services can help you manage your money?
2. Do you want a full service financial institution that can take care of your banking, investing needs or do you want to manage your business among individual specialists? What choice did you make this choice?
- 3.

Build Your Skills

These activities are designed to be carried out in teams, giving you a launching pad for a lively in-class discussion.

e-Xtreme Surfing

This feature points out Web sites that elaborate on the chapter content. All eXtreme Surfing sites can be linked at your discretion from the book's Online Learning Center (see pages xvi-xvii).



e-Xtreme Surfing

- **Leading Concepts**
www.leadingconcepts.com/
- **Model Electronic Privacy Act**
<http://archive.aclu.org/issues/worker/legkit2.html>
- **NASA's organizational chart**
www.hq.nasa.gov/hq/orgchart.htm

Provides information about the ways companies improve communication.

Offers information from the American Civil Liberties Union (ACLU) regarding electronic privacy legislation.

Presents the organizational chart of NASA.

See for Yourself Videocase



FISHING FOR SUCCESS: THE PIKE PLACE FISH MARKET



It has been almost 100 years since the Pike Place Market opened in Seattle. In response to rising produce costs and concerns that farmers were being deprived of their just return by middlemen—a pound of onions rose from 10 cents to \$1 in just one year—the market opened so that consumers could buy directly from farmers. On opening day, eight farmers merged on the corner of First and Pike, and more than 10,000 eager buyers showed up to choose from their wares.

Today, the Pike Place Market is much more than its name suggests. Covering roughly nine acres, the market comprises food stores (bakeries, dairies, fish/seafood, commercial produce stands, meat and butcher shops, produce stands, specialty food stores as well as restaurants, cafés, and fast-food businesses) and mercantile shops (antiques and collectibles, art galleries, books, stationery and cards, clothing and shoes, cookware, and flowers) with over 100 vendors operating each day. One of the more popular shops in the Pike Place Market is the Pike Place Fish Market.

counter banter and shout, "Anyone Tourists and shoppers cheer and cheer."

Perhaps the most unique characteristic of the Pike Place Fish Market is the fact that, except for the fish, everything is never advertised. If you look on the Internet, you can read numerous articles about the company in local newspapers, magazines, and travel guides. The fish market also receives a lot of attention. Each time it is featured on a Food TV channel, the company receives more business. The company receives more business from the most large companies that spend a lot of money on advertising.

See For Yourself Videocase

Stimulate your students with these engaging case videos, all of which are new to this edition.

Role-Play Exercises

at the end of each part give students the opportunity to assume organizational roles and make decisions through application of the text concepts.

Part 4 Role-Play Exercise*

eQuality Assured

Quality Assured (QA), a nonprofit organization, was started in 1977 to promote the establishment, development, and preservation of high professional standards and audit the social responsibility of companies in the United States. The audits could be used to promote the company's good corporate citizenship and determine areas that need improvement. Of the four issues of social responsibility (voluntary, ethical, legal, and economic), it had always focused most on the voluntary and ethical aspects. During the early years, QA dedicated a majority of its resources to environ-

eQuality has a full-time staff of 50 employees. The core workers are responsible for all the functions performed at the organization. Most are not experienced, but carry out functional responsibilities in accounting and technology. Some important issues need to be addressed, interacting with nonprofit organizations, recruiting volunteers, and all aspects of the projects. Because of the deadline, a majority of the paid staff feels over-

Instructors Supplements



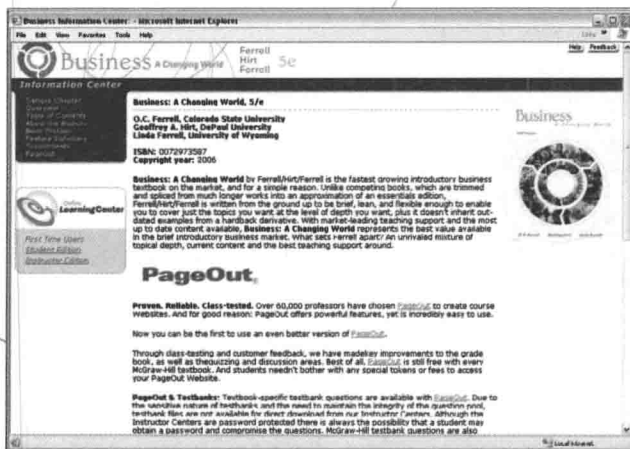
Instructor's Resource CD-ROM

Everything you need to get the most from your textbook, including:

Instructor's Manual. Includes learning objectives; lecture outlines; PowerPoint notes; supplemental lecture; answers to discussion questions and end-of-chapter exercises; notes for video cases; term paper and project topics; suggestions for guest speakers; and roles and options for implementing the role playing exercises in each text part.

Computerized Test Bank. Includes hundreds of multiple choice, true/false and essay questions.

PowerPoint Presentations. Organized in outline format, there are 20-25 slides per chapter. Additional figures and tables from the text may be found on the CD-ROM in the "Image Bank."



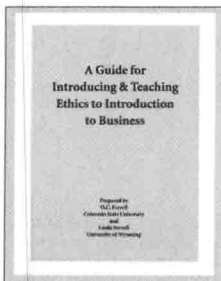
Link to Online Learning Center

(www.mhhe.com/ferrell5e)

Online Learning Center (OLC) with Premium Content

www.mhhe.com/ferrell5e

Access everything you need to teach a great course through our convenient online resource. A secured Instructor Resource Center stores your essential course materials to save you prep time before class. The Instructor's Manual, Solutions, PowerPoint™, and sample syllabi are now just a couple of clicks away; you'll also find useful packaging information and notes.



A Guide for Introducing and Teaching Ethics in Introduction to Business

Written by O.C. Ferrell and Linda Ferrell, this is your one-stop guide for integrating this important issue into all aspects of your course. It helps you to demonstrate how business ethics lead to business success and offers a wide range of business ethics resources, including university centers, government resources, and corporate ethics programs.

Active Classroom Resource Guide

An Additional collection of team projects, cases, and exercises that instructors can choose from to be used in class or out.

Student Supplements

Study Guide

Each chapter of the Study Guide includes a chapter summary, learning objectives, and plenty of true/false, matching, and multiple-choice questions to practice.

Interactive Study Guide on CD-ROM

Each chapter of this powerful review tool includes sample quizzes, along with activities from McGraw-Hill/Irwin's self-assessment series "Build Your Management Skills."

Online Learning Center (OLC) with Premium Content

www.mhhe.com/ferrell5e

More and more students are studying online. That's why we offer an Online Learning Center (OLC) that follows *Business: A Changing World* chapter by chapter. It doesn't require any building or maintenance on your part, and is ready to go the moment you and your students type in the URL.

As your students study, they can refer to the OLC Web site for such benefits as:

- Internet-based activities
- Self-grading quizzes
- Learning objectives
- Extended chapter summaries
- Additional video and related video exercises



The fifth edition includes an **online running video case** highlighting entrepreneur Todd McFarlane, who parlayed his artistic ability (and a passion for sports) into a multimillion dollar business that straddles film and television production, toys, comic books, sports licensing and games. Students watch and learn as McFarlane explains how he leads his company across all functional areas of business, illustrating how firms deal with the problems and opportunities of today's business world. With one video case for each part of the textbook highlighting this fun and unique company, students and instructors are provided a complete context for discussing every aspect of introductory business.