

BUSINESS ESSENTIALS

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RICKY W. GRIFFIN



Third
Edition

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TO SOME OUTSTANDING TEACHERS—
GENE GROFF, WILLIAM MORRIS, AND STAN STOCKTON
JACK IVANCEVICH AND SKIP SZILAGYI
THANKS FOR YOUR ENDURING INFLUENCE ON OUR LIVES.

R.J.E.

R.W.G.

■ PREFACE

Each year, *Fortune* magazine publishes two prestigious lists: “The Best Companies to Work For” and “America’s Most Admired Companies.” Entering into this third edition of *Business Essentials*, we realize that you, our readership audience, deserve similar recognition on two counts. First, for us you are “The Best Students and Instructors to Work For.” Second, for your role in widening the understanding of business, we include you and your institutions on our list of “Most Admired Contributors to Society.” The enthusiastic reception for *Business Essentials* among instructors and students has stimulated this third edition of the book. For this revision, as with earlier editions, we have conceived *Business Essentials* as a new product with a unique purpose. The book reflects more than just changes that are occurring in the practice of business. It also reflects the changing needs of students and teachers of business.

■ MEETING CUSTOMER NEEDS

Business Essentials is an alternative for those who want a no-nonsense approach to the introduction-to-business course. It presents the “no-frills” essentials of business for those instructors who want focused coverage in a low-priced book.

In creating this third edition of *Business Essentials*, we drew upon our experiences in developing the previous editions and upon even earlier experiences in developing five successful editions of *Business*. The new edition of *Business Essentials* has been thoroughly updated, and we are most proud of *Business Essentials* because its development enabled us to practice what we preach by addressing the significant but previously unmet needs of an important market segment. Prentice Hall, the authors, and a panel of advisors who teach business listened closely to our customers, both students and instructors, in creating a successful new product. Not surprisingly, the twofold mandate of *Business Essentials*—brevity and high quality—involved sometimes challenging, often difficult decisions about content and orientation. Very early in the project, we learned to appreciate the difficulties of being selective; deciding upon which subject matter to emphasize and which materials to exclude was painful (you can’t have a shorter book of high quality without cutting). Ultimately, our decisions for this third edition, as for the previous ones, were guided by suggestions from teachers and students, as well as by our own experiences in the practice of business.

■ MEETING OBJECTIVES

This third edition of *Business Essentials* was guided by the same fundamental objectives that we established for the book at the outset:

- ◆ We wanted it to be an affordable, lower-price alternative for students in the introductory course.
- ◆ We wanted it to be reduced in length while retaining high quality in its coverage of the essential facets of business.
- ◆ We wanted it to be accurate, with all statements of fact based on scientific research and/or managerial practice.
- ◆ We wanted it to be current, with illustrative examples and cases drawn from business stories that are still unfolding.
- ◆ We wanted it to be readable so that students could appreciate the experience of encountering and thinking about life in the world of business.

We believe that we have met all of these objectives. The price of *Business Essentials* is lower than that of most major, high-quality books designed for the introductory course. The book offers significant coverage of business essentials, including both traditional topics and newer ideas. All of our examples are drawn from today's business world, and we added and updated information and examples right up to the moment we went to press.

■ A NEW ORGANIZATION

One way that a textbook—or any successful product, for that matter—succeeds in the long term is by close reevaluation on a regular basis. We have done this with *Business Essentials*; the third edition has been reorganized according to both reviewer feedback and our own observations of the market. *Business Essentials* now consists of 16 chapters organized into 6 parts, plus 2 appendixes. This streamlined organization should make the material more manageable for both semester- and quarter-length courses.

Part One introduces the basics of the business system in the United States and now includes coverage of two of the most contemporary influences in business today: global business and ethics/social responsibility.

Part One: Introducing the Contemporary Business Environment

- Chapter 1: Understanding the U.S. Business System
- Chapter 2: Conducting Business in the United States
- Chapter 3: Understanding the Global Context of Business
- Chapter 4: Conducting Business Ethically and Responsibly

Part Two addresses the management side of business from a mostly macro perspective. In this part, we devote the first two chapters to the subjects of managing and organizing the business enterprise. In the next chapter, we look closely at an increasingly important aspect of the U.S. business scene—entrepreneurship and the small business.

Part Two: Understanding the Business of Managing

- Chapter 5: Managing the Business Enterprise
- Chapter 6: Organizing the Business Enterprise
- Chapter 7: Understanding Entrepreneurship and the Small Business

Part Three looks at a key element in any successful business—human resources. The two chapters in this part introduce students to the key elements of managing people. Topics addressed include: motivation, leadership, group dynamics, and labor and management relations issues.

Part Three: Understanding People in Organizations

- Chapter 8: Motivating, Satisfying, and Leading Employees
- Chapter 9: Managing Human Resources and Labor Relations

Part Four covers a topic that is often fun for students—marketing. Typically students can relate personally to the topics covered. In our experience, for example, all students can identify with an advertisement of some type, usually a television commercial (so do we, for that matter!). The chapters in this part discuss such topics as consumer behavior, pricing, and promoting and distributing products.

Part Four: Understanding Principles of Marketing

Chapter 10: Understanding Marketing Processes and Consumer Behavior

Chapter 11: Developing and Pricing Products

Chapter 12: Promoting and Distributing Products

Part Five looks at the way businesses manage operations for the production of both goods and services and examines the ways they manage information. This part also examines the goals and methods of managing for quality and explains basic accounting as an element in a firm's information system.

Part Five: Managing Operations and Information

Chapter 13: Managing Production and Improving Quality

Chapter 14: Understanding Accounting and Information Systems

Part Six introduces the financial elements of business. Because these can be tricky topics for beginning business students, we stress the fundamentals in these chapters with an even and consistent style. Our goal is to address the key topics in a context that lets the student see their applications. Topics that we cover in this part are money and banking, securities, and other investments.

Part Six: Understanding Financial Issues

Chapter 15: Understanding Money and Banking

Chapter 16: Understanding Securities and Investments

In the appendices, we cover two important topics: financial and risk management and the legal aspects of business. Most reviewers of the second edition of *Business Essentials* told us that although these topics did not require complete chapter-length coverage, they should be made available to both students and teachers. We know that you might differ with this assessment; if so, let us know and we will reconsider for the fourth edition.

Appendix 1: Understanding Financial and Risk Management

Appendix 2: Understanding the Legal Context of Business

Finally, we have moved the topic of business careers and the job search onto the Prentice Hall Web site for quick access by students who are interested in looking into this important aspect of business life.

■ CONTEMPORARY THEMES

To be fully prepared for business in the third millennium, students must be aware of the business-world trends that will affect them as they start their careers. For this reason, we have concentrated on bringing several important themes to their attention.

- ◆ **The Growth of International Business.** Many businesspeople and observers of the business world see globalization of the economy as the great challenge in the coming century. To keep students aware of this challenge, we have based many of the examples, vignettes, and assignments in this book on the experiences of global companies. Chapter 3, “Understanding the Global Context of Business,” provides full coverage of this important topic.
- ◆ **The Significance of Small Business.** Because we recognize that many students will not go to work for large corporations, we have provided balanced coverage of both small and large companies throughout the text. Chapter 7, “Understanding Entrepreneurship and the Small Business,” is comprehensive. In addition, examples throughout the book deal with small businesses, and many chapters contain sections that apply

specific practices and issues to the special concerns of small businesses. In addition, the *Business PlanPro* software (see below) is available for integrating chapter information into the development of a business plan for a small business.

- ◆ **The Growth of the Service Sector.** The service sector will continue to grow significantly around the globe. We stress the importance of this sector by giving it equal billing with manufacturing in Chapter 13, “Managing Production and Improving Quality.” Throughout, the book also provides prominent coverage of service businesses in the examples, vignettes, visuals, and end-of-chapter exercises.
- ◆ **The Need to Manage Information and Communications Technology.** In our information-based society, the people and organizations that learn how to obtain and use information will be the ones that succeed. The explosive growth in information systems stems from the emergence of communications technologies such as multimedia communications systems. We cover this important topic in detail in Chapter 14, “Understanding Accounting and Information Systems,” where the discussion has been completely reworked for accuracy and currency.
- ◆ **The Role of Ethics and Social Responsibility.** Because business ethics and social responsibility have been generating much discussion in recent years, we devote a full chapter to these topics (Chapter 4, “Conducting Business Ethically and Responsibly”). We also treat issues of business ethics and social responsibility in our examples, cases, and other features.
- ◆ **The Quality Imperative.** Quality improvement continues to be of special interest as we pass beyond the year 2000. We initiated coverage of this subject in Chapter 11, “Managing Production and Improving Quality,” in response to the requests and suggestions of instructors. We also present quality considerations where they relate to other materials throughout the book.

User-Friendly Features and a Realistic Picture of Business

A textbook must be packaged effectively and engagingly if it is to accomplish its objectives. We have thus designed a number of features to make this book as user-friendly, and with as many hands-on applications, as possible.

- ◆ The third edition of *Business Essentials* introduces a brand-new feature called the **Web Vignette**, which puts the dynamic technology of the World Wide Web at the head of each part of the book. These comprehensive case studies present detailed discussions of real companies or industries, and to help students pursue questions and conduct further research, key Web addresses are included. As always, we also integrate discussion questions. *Web Vignettes* cover such topics as Beanie Babies, Southwest Airlines, NASCAR, and the Y2K problem. See the table of contents for a complete listing of topics and page numbers.
- ◆ Every chapter begins with a compelling **two-part case** that introduces a current real-world business situation by engaging student interest in the content and issues that follow in the chapter. Next comes a list of **learning objectives** for the chapter—a simple blueprint to alert students to the key subjects of study in the chapter. At the close of each chapter, we wrap up the two-part case. Here we incorporate questions for discussion so that students can analyze the case, either on their own or in class as a group.
- ◆ New to the third edition of *Business Essentials* is a feature entitled **CRAFTING YOUR BUSINESS PLAN**. We are pleased to introduce our partnership with Palo Alto Software and the addition of *Business PlanPro* into the third edition of *Business Essentials*. Developing a business plan is increasingly popular as an application experience in the introduction-to-business course, and *Business PlanPro* offers the ideal environment for doing so. Featuring 20 sample plans from real start-up companies, *Business PlanPro* 3.0 (BPP) is a powerful vehicle that offers the first-time planner a structured step-by-step approach to the process of building a comprehensive business plan. At the same time, it is quite suitable for commercial-

grade planning applications; the student who works with BPP gains a practical and saleable business skill for his or her business career.

Crafting Your Business Plan is a chapter-ending exercise that applies chapter material to the task of developing a business plan. The exercise lists the purpose of each planning assignment, guides the planner to the appropriate section of BPP, such as goal setting, projecting sales, start-up activities, competitive assessments, marketing and financial planning, information on where to go for start-up help, and many other areas. Students are encouraged first to examine sample plans and then to personalize their own plans in the BPP environment—writing them, storing and accessing them; gathering and entering data into BPP spreadsheets; using BPP graphics for class presentations and written reports; adding new sections as they progress through the textbook; and crafting final plans into coherent refined documents. The instructor, too, enjoys a great deal of flexibility in the level of student involvement with BPP. Students, for example, may be asked merely to examine business plans for some of BPP's 20 sample firms, or they may be encouraged to immerse themselves in a semester-long planning activity culminating in formal reports or other presentations. We have found that the BPP environment is a real eye-opener for students: The planning process brings together all of the course material from the textbook and vividly exposes the ways in which various topics relate to one another to fashion an integrated picture of any business.

- ◆ **BUILDING YOUR BUSINESS SKILLS** exercises give students an opportunity to apply both their knowledge and their critical-thinking skills to extended problems drawn from a wide range of realistic business experiences. Each exercise begins with a list of specific goals. A business situation is then described, and a step-by-step method for proceeding is outlined. Follow-up questions help students focus on the topic at hand.

All of the *Building Your Business Skills* exercises are brand-new to this edition and have been specifically designed to satisfy the pedagogical criteria laid out in the **Secretary of Labor's Commission on Achieving Necessary Skills (SCANS)**. SCANS was developed to identify the competencies that will be needed by students preparing to assume their roles in the workplace, and the exercises in this feature have been designed to foster in-depth involvement and problem solving in a format suitable for both out-of-class preparation and in-class discussion. To help students apply classroom and textbook lessons to the real world of business, *Building Your Business Skills* exercises emphasize the following areas in which students are encouraged to practice their skills: resources, interpersonal skills, information, systems, and technology.

- ◆ The prominence of the Internet as an information medium stimulated the continuation of our EXPLORING THE NET feature at the end of each chapter. The highly favorable user response from the second edition encouraged us to create some new examples while retaining and upgrading some of the more popular ones. Students are directed toward Internet information sources and hands-on network activities that enhance and reinforce understanding of important topics in each chapter. As in *Building Your Business Skills*, the *Exploring the Net* exercises are specifically designed to foster in-depth involvement and problem solving. The format is hands-on, and activities are designed to accommodate both out-of-class preparation and in-class discussion.

Note that although we waited until the last possible minute to finalize the installments in this feature, we understand that users will undoubtedly encounter problems in accessing the same home pages and subdirectories that we used in creating these exercises. The reason will almost always be the same: a content provider has exercised his or her option to make changes. But of course, change and flexibility are integral features of the Internet. To work around these changes, we urge everyone to be flexible and creative. There are numerous sources for most types of information, and both we and our colleagues have found that when faced with glitches, determined students not only find what they want but gain valuable experience in working with search engines. We are convinced that inventive students will not only locate alternative solutions to most exercise problems but will gain in enthusiasm in the process.

- ◆ Also new to the third edition are our **video cases**. First comes *Showtime!*, a set of video cases featuring Showtime Networks Inc. In keeping with our tradition of integrating business information straight from the front lines, we worked with the managers and executives of one of the leading cable-TV networks in the country. During our visits with Showtime, we gathered information that applies directly to all of the core areas of the introduction-to-business course. We wanted to be sure to create an environment in which students can see the application of business concepts.

Each part also includes a comprehensive video case from the acclaimed PBS series *Small Business 2000*. We have selected installments from this series because we wanted to give students a realistic balance between large, often global operations and small, more entrepreneurial settings. Here students can see how different small business owners apply the core concepts of business in order to survive and prosper in a highly competitive environment.

Note that the video cases in this edition of *Business Essentials*, like the *Building Your Business Skills* and *Exploring the Net* exercises, have been designed for pedagogical effectiveness. The videos themselves are now the part-ending “cases,” and the material placed in the text itself is designed to direct or focus student activities:

- *Learning Objectives* tell students what information to look for and what concepts to focus on as they watch the video
- *Background Information* provides context and supplements facts where needed
- A description of *The Video* previews the content of the segment
- *Discussion Questions* help students organize their thoughts on the material shown
- *Follow-Up Assignments* furnish an opportunity for further study about the video topic
- Where applicable, a section designed *For Further Exploration* encourages supplemental activities, many of which are geared to further research on the Internet.
- ◆ Within each chapter are **figures**, **tables**, and **photographs** to illustrate a point or convey a message. The selective inclusion of these visuals increases the reader’s involvement in the text. All photos are inspired by the text material; captions expand upon text content.
- ◆ Each chapter includes a **thematic box** on “Trends and Challenges” designed to provide additional perspectives on the material. Various topics include reports on high-interest events, analyses of newly emerging problems, and examinations of controversial issues in today’s business environment.
- ◆ To emphasize fundamental concepts, each **key term** is printed in boldface in the text and defined in the margin of the page where it is introduced. A comprehensive glossary at the end of the book provides readily accessible definitions as well as a reference to the text page where the word first occurs.
- ◆ Selected **cartoons** and **quotation callouts** are used occasionally to stimulate interest and enhance understanding of certain key points.
- ◆ Several useful features are found toward the end of each chapter. A concise *Summary of Learning Objectives* is followed by pedagogical features that both review what’s been learned and ask students to apply what they’ve learned. *Study Questions and Exercises* are divided into three categories: **Review** (which tests recall of material), **Analysis** (which tests understanding), and **Application Exercises** (which ask students to apply concepts to basic problems).

■ SUPPLEMENTS

Because we recognize both the excitement and the challenge of teaching, we have endeavored to provide you with a text that will make your work more enjoyable. Toward this end, we have assembled what we believe is the best total instructional system available

for a business text. Each component of the teaching and learning package has been carefully crafted to ensure that this first course in business is a rewarding experience for both instructors and students.

- ◆ *Instructor's Manual*
- ◆ *Study Guide*
- ◆ Test Item File
- ◆ *Prentice Hall Custom Test*
- ◆ Powerpoint Transparencies
- ◆ Color Transparencies
- ◆ Stock Market and Investment Practice Set
- ◆ *Beginning Your Career Search*
- ◆ Prentice Hall/*New York Times* "Themes of the Times" for Business
- ◆ *Threshold Competitor: A Management Simulation*
- ◆ PHLIP/CW Companion Website
- ◆ *Surfing for Success in Business: An Internet Guide*
- ◆ *Hot Topics in Introduction to Business*
- ◆ *The Business Student Writer's Manual*
- ◆ Prentice Hall Self-Assessment Library CD-ROM

We would like to highlight the following elements in the package for the third edition of *Business Essentials*:

- ◆ ***Prentice Hall Custom Test*** (Windows version) is based on the number-one best-selling test-generating software program developed by Engineering Software Associates. This state-of-the-art test-creation program is not only suitable for established courses but is customizable according to individual needs. It is user-friendly, and this powerful program permits instructors to originate error-free tailor-made tests quickly and easily. Exams can be administered either on-line or traditionally, and *Custom Test* also tracks students' results and analyzes the success of specific tests.
- ◆ ***Threshold Competitor: A Management Simulation*** (Second Edition) is the only Windows-based introduction-to-business simulation currently available. Using *Threshold*, students work in groups to manage small manufacturing companies competing in the same marketplace. They decide on company missions, goals, policies, and strategies in areas ranging from marketing to finance and manufacturing. They practice skills in planning, organizing, directing, and controlling and get responses to both questions and decisions. *Threshold Competitor* is now available in three versions: The Solo Version, in which individual students compete against computer-managed companies; the Team Version, in which students work in groups to make decisions; and the Team and Solo Combined Version.
- ◆ ***PHLIP/CW Companion Website*** is a Web-based learning environment that contains numerous links to discipline-specific Websites. In addition to the wealth of resources and information posted on the companion Website designed for both teachers and students, the PHLIP/CW site features a faculty-support section that provides instructors with access to textual and media material in the Prentice Hall Business Publishing archive. The purpose of PHLIP/CW is to furnish up-to-date classroom support through state-of-the-art technology and resources. Instructors and students can access PHLIP at

<http://www.prenhall.com/ebert>

- ◆ ***Beginning Your Career Search*** is a concise discussion of the essentials of career planning. Chapters cover résumé preparation, introductory and follow-up letters, researching companies, interviews, handling job offers, and sample letters.

- ◆ *Surfing for Success in Business: An Internet Guide* is a brief, discipline-specific introduction to the Internet. In addition to addressing frequently asked questions, it offers advice on job searches, résumés, assistance in distance learning, and tips on navigating the information superhighway.
- ◆ *The Business Student Writer's Manual* is a separate book from Prentice Hall that teaches writing skills in the context of regular classes.
- ◆ *The Prentice Hall Self-Assessment Library CD-ROM* is an easy-to-use set of 45 exercises designed to give students insights into the skills they'll need in the business world. The CD-ROM is divided into three parts—"What about Me?" "Working with Others," and "Life in Organizations." Each exercise can be performed electronically and can be self-scored.
- ◆ *Hot Topics in Business* devotes separate chapters to the trends and practices that are currently fueling change in the dynamic world of business. Updated regularly to ensure current and exciting coverage, the *Hot Topics* guide includes not only background information and thorough discussions, but discussion questions and group and Internet exercises.

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RONALD J. EBERT is Professor of Management at the University of Missouri–Columbia. He received his B.S. from The Ohio State University, his M.B.A. from the University of Dayton, and his D.B.A. from Indiana University. He is active in the Academy of Management and the Decision Sciences Institute (DSI). Dr. Ebert has also served as the editor of the *Journal of Operations Management*, as Chair of the Production and Operations Management Division of the Academy of Management, and is a Past-President and Fellow of DSI. In addition to *Business* and *Business Essentials*, he is the co-author of three books: *Organizational Decision Processes*, *Production and Operations Management* (published in English, Spanish and Chinese), and *Management*.

Dr. Ebert has held engineering and supervisory positions in quality management with the Frigidaire Division of General Motors Corp. He has also done consulting for the National Science Foundation, the United States Savings and Loan League, Kraft Foods, Oscar Mayer, Sola Optical USA Inc., and the American Public Power Association. His research interests include: production strategy, engineering design processes in product development, and strategy formulation.

RICKY W. GRIFFIN was born and raised in Corsicana, Texas. He received his B.A. from North Texas State University and his M.B.A. and Ph.D. from the University of Houston. He served on the faculty of the University of Missouri–Columbia from 1978 until 1981, when he joined the faculty at Texas A&M. In 1990, he was named the university's Lawrence E. Fouraker Professor of Business Administration. He currently serves as Head of the Department of Management.

Dr. Griffin's research interests include: leadership, workplace violence, and international management. He has done consulting in the areas of task design, employee motivation, and quality circles for such organizations as Baker-Hughes, Texas Instruments, Six Flags Corp., Texas Commerce Bank, and AT&T. His research has won two Academy of Management Research Awards (both in the Organizational Behavior division) and one Texas A&M University Research Award.

In addition to *Business* and *Business Essentials*, Dr. Griffin is the author or co-author of five books and more than 40 journal articles and book chapters.

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