

SECOND CANADIAN EDITION

# BUSINESS

A C H A N G I N G W O R L D

Ferrell

Hirt

Bates

Currie

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# BUSINESS

## A C H A N G I N G W O R L D

SECOND CANADIAN EDITION

O.C. Ferrell

Colorado State University

Geoffrey Hirt

DePaul University

Rick Bates

University of Guelph

Elliott Currie

University of Guelph



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## Business: A Changing World, Second Canadian Edition

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**Dedicated to:**

The young ladies who always keep me charmed in no particular order:  
Riannon, Kayleigh, Janessa, Rebecca, Emma, Maya, and Cara. *E.J.C.*

To my parents for their years of support and encouragement. *M.R.B.*

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Dr. Ferrell is widely recognized as a leading teacher and scholar in business. His articles have appeared in the *Journal of Marketing Research*, *Journal of Business Ethics*, *Journal of Marketing*, *Journal of Business Research*, *Journal of Macromarketing*, *Journal of the Academy of Marketing Science*, and others. His textbook entitled *Business Ethics: Ethical Decision Making and Cases* is the leading text in this field. He has also coauthored numerous textbooks for marketing, management, and other business courses, as well as a trade book on business ethics. He chaired the American Marketing Association (AMA) ethics committee that developed its current code of ethics. He was the vice president of Marketing Education and president of the Academic Council for the AMA.

Dr. Ferrell's major focus is teaching and preparing learning material for students. He has travelled extensively to work with students and understands the needs of instructors of introductory business courses. He lives in Fort Collins, Colorado and enjoys skiing, golf, and international travel.

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Geoff has published several books. The sixth edition of *Fundamentals of Investment Management* was released in July 1998 and is published by Irwin/McGraw-Hill. Additionally, Geoff is well known for his book *Fundamentals of Financial Management* published by Irwin/McGraw-Hill. Now in its eighth edition, this book is used at over 600 colleges and universities worldwide, and it has been translated into Chinese, Japanese, and Spanish.

Geoff plays tennis and golf, is a music lover, and enjoys travelling with his wife, Linda.

**ELLIOTT CURRIE** is currently an Assistant Professor at the University of Guelph, where he teaches accounting, finance, human resource management, and business policy and strategy. His career achievements include working as an Outdoor Venture Instructor (with the Ministry of Corrections), as a commercial pilot and flying instructor, and as a corporate pilot and manager in the construction-aggregate industry. Prior to joining the academic world he also worked in finance with Petro-Canada, in marketing in the foundry industry, and as a corporate banker and controller in the insurance industry.

Professor Currie received a BA in Psychology from McMaster University and an MBA in finance (also from McMaster) and is a designated Certified Management Accountant. In 1992, Professor



Currie joined Wilfrid Laurier University where he taught business policy, management controls, organizational behaviour, small business management, and new venture creation. Elliott has been teaching at the University of Guelph since 1998 where he has published in the area of personal finance. Currently he is researching succession planning of small businesses and the impact of ethnicity on food consumption patterns and preferences.

Elliott hikes and canoes, and enjoys cooking, travelling, and cottaging with his wife, Ann.

**RICK BATES** is currently an Associate Professor of accounting and finance in the Department of Agricultural Economics and Business at the University of Guelph. He received his BA in Economics from the U. of G. in 1971, an MBA from York University in 1978, and his CA designation in 1978.

From 1971 to 1979 Rick held a variety of positions with financial institutions including Household Finance Corporation, Imperial Life Assurance Company, and Sterling Trust (now Laurentian Bank). He completed his CA training with Peat, Marwick, Mitchel & Co. in Toronto.

Professor Bates brought a broad background in accounting, taxation, finance, auditing, and management to his faculty position in 1980. Since then he has been actively involved in the design and delivery of undergraduate, graduate, and diploma courses in the areas of accounting, finance, and taxation.

Rick and his wife, Wanda, have two grown children, and reside in the Village of Hillsburgh, Ontario. In his spare time, Rick is a motorcycle enthusiast. He is also involved in the local community where he is currently president of the Erin Agricultural Society and an active volunteer at the local Fall Fair.

# Preface

With the success of the first Canadian edition of *Business: A Changing World*, we were excited with the opportunity to update and further improve the second edition of this award-winning text. The compact format helps instructors move away from rushing through the material, and allows them to cover everything in a single semester or quarter. Technology, specifically the Internet, makes it possible to expand the subject matter, content, and learning devices beyond the textbook. At the same time, students learn to compete in a world where businesses use virtual components—and to keep up with, and hopefully stay ahead of, changes in the business world.

After extensive research and suggestions from our reviewers, the second Canadian edition of *Business: A Changing World* reflects the exciting challenges presented by business in the twenty-first century. This text provides 15 chapters on topics that instructors view as essential for the highly competitive introduction to business market.

Six perspectives that are changing the world of business are emphasized throughout the complete teaching package—the globalization of business, quality, ethics and social responsibility, diversity, technology, and productivity. These current business challenges are integrated into the text and also appear in boxes in each chapter.



Think Globally



Strive for Quality



Consider Ethics & Social Responsibility



Value Diversity



Embrace Technology



Enhance Productivity

In addition to strong coverage of eBusiness throughout, all six parts have a **Cyberzone part-ending feature** that provides insights on how the Internet is changing the business arena. These features provide an up-to-date report and links to sites that focus on the Internet's use in different areas of business.

In the text, the use of real-world examples, boxed features, and new video cases creates excitement about business and stimulates students' thought processes, judgment, and communications skills. To assist in utilizing cognitive processes related to decision-making skills, the text provides a dilemma and a skill-building exercise in each chapter. We wanted this book to encourage students to think, communicate, and make their own decisions—invaluable critical skills that can always be used in the changing world of business.

## WHAT'S NEW IN THE 2ND CANADIAN EDITION

- Based on feedback from reviewers who requested a more concise text, **the text has been shortened to 15 chapters**. *The Legal and Regulatory Environment*, formerly Chapter 2, now appears as Appendix A at the end of the text. This allows students to focus on just the necessary and critical areas of law



and regulatory issues (in addition to relevant and integrated coverage throughout the text), and accommodates a 13-week semester.

- Reviewers asked for **increased coverage of entrepreneurship**, reflecting the importance of small business in Canada. We've added more examples of entrepreneurship to help students relate to the concepts presented.
- You also asked for **expanded coverage of insurance**—we increased and integrated this coverage.
- Reviewers asked us to **engage the students and initiate lively classroom discussion**. See our “Solve the Dilemma” boxes for new and engaging hypothetical situations and creative problem solving.
- Stronger **experiential exercises related to technology** were another request. We responded with “Searching the Online World” exercises at the end of each chapter.
- **Student Success!** After all, that's what it's all about. Included in our robust Online Learning Centre are numerous resources including skill-building exercises and a Student Success Centre. This Centre includes a Study Guide (including quizzes different from the web site), videos and related cases, and all new role plays!

Our mission was to develop a book that prepares students for today's rapidly changing business environment. We wanted to prepare them to understand how businesses use the Internet. It was important that they recognize how global competition, economic fluctuations in different parts of the world, and a push for more customer-focused and people-friendly organizations make business decision-making more challenging. By promoting a greater understanding of essential technological issues and instilling a higher sense of self-development, this second Canadian edition prepares students for a variety of opportunities and challenges. With that kind of preparation, we believe that any student will be ready to succeed—in business and beyond.

## ORGANIZATION

*Business: A Changing World* is divided into six parts. Part One introduces the fundamentals of contemporary business and economics and discusses social responsibility, ethics, and global business concerns. Part Two deals with forms of business organization and small business and entrepreneurship. Part Three explores management principles, structuring the organization, teamwork, communication, and production and operations management. Part Four focuses on human relations and human resources management. Part Five covers customer-driven marketing. Part Six addresses financial management. In addition, the book includes an appendix on preparing a business plan.

## Pedagogy

*Business: A Changing World* provides numerous features to facilitate student learning:

- **Maps** are provided immediately before Chapter One for student reference in their study of business and globalization. The maps we've supplied include:

A map of Canada, a map of the World, and a map of the European Union.





- **Learning objectives** at the beginning of each chapter inform students about what should be achieved after reading and studying the chapter.
- A **chapter-opening vignette** sets the scene for issues discussed in each chapter.

### Objectives

After reading this chapter, you will be able to:

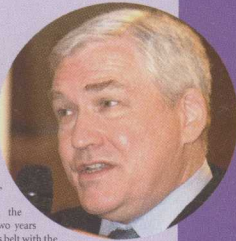
- Define entrepreneurship and small business.
- Investigate the importance of small business in the Canadian economy and why certain fields attract small business.
- Specify the advantages of small-business ownership.
- Summarize the disadvantages of small-business ownership and analyze why many small businesses fail.
- Describe how you go about starting a small business and what resources are available.

## Enter the World of Business

### The Leopard Did Change His Spots—They Grew

The son of a wealthy brewery executive, Conrad Moffat Black was born August 25, 1944, in Montreal. After leaving home at age 18, he earned a history degree at Carleton University, a law degree at Laval, and an MA from McGill. An avid student of history, he has written several books (including an autobiography) about political figures such as Maurice Duplessis, Napoleon, and most recently, Franklin Roosevelt.

Mr. Black purchased his first newspaper, the *Sherbrooke Record*, when he was 25 years old. Two years later, he added about 20 Canadian newspapers to his belt with the acquisition of the Sterling Company chain. Five years later, at age 33, he gained control of Argus Corporation (the parent company of Massey-Ferguson, a



small."

Electronic commerce offers numerous advantages to both consumers and business. E-commerce allows small- and medium-sized enterprises to reach a wider market than traditional business models, and there can be significant overhead cost reductions and improved customer service. For the consumer, e-commerce facilitates research on both competing products and prices, it provides convenience, and in many instances it offers broader access to good deals.

Despite these advantages, the growth of e-commerce has not been as rapid as was widely forecast. The most apparent reason is the concern of both businesses and consumers with the confidentiality of information transferred on the Internet. Security of personal information has always been important, but the growth of electronic media has made users more aware of the

- Accountability of organizations
- Identifying the purpose of information collected
- Consent of the information provider
- Limiting collection of information
- Limiting the use, retention, and disclosure of information collected
- Accuracy
- Safeguards
- Openness
- Individual access
- Challenging compliance

The PIPEDA is intended to protect information about an individual. For the purposes of the Act an individual's

Many North American companies are expanding their Internet marketing overseas. There is great opportunity for savvy firms to capitalize on the growth of the Internet throughout Europe, Asia, and the rest of the world. Research indicates that the number of overseas web surfers will continue to increase, outpacing growth in North America. To utilize the web as a global marketing tool, however, companies must take a number of issues into consideration, including language, culture, regulations and laws, differing standards for telecommunication infrastructures, and privacy concerns.

The most dominant language on the Internet is English, but 64 percent of users (680 million people worldwide) use a language other than English. The most popular non-English languages on the Net are Chinese (12 percent), Japanese (10 percent), French (6 percent),

### Consider Ethics and Social Responsibility

#### The Need for Privacy

entering an international market, any company should use market research to determine the size of the market, the

Alphagraphics has found Central America to be a very profitable market. Being creative in research is the fourth step. Shred-It, an industrial shredding company, hires MBA students to do research and provide an understanding of a potential market, with costs running between \$5,000 and \$7,000 per country. Once a market is deemed to have potential, Shred-It hires professional market researchers to continue the process.

The last step involves asking the right questions, either through a firm's own research department or through an international research firm. Concerns to investigate include cultural and language issues, things that might offend local traditions or preferences, market potential, brand loyalty, technology and logistics, and government regulations. If an international research firm is considered, the following questions should be asked before hiring the firm:

### Embrace Technology

#### Online Global Marketing

Content also must be changed to reflect cultural differences. For instance, baseball is not widely followed in Great Britain, so a web site catering to baseball enthusiasts would be unsuccessful there. However, cricket is very popular, and a site incorporating the sport would probably do well. In addition to sports, other cultural and social concerns to be addressed include buying and eating habits, entertainment, family values and roles, and other lifestyle issues. To be successful, web content must take into account local, regional, and country tastes.

Privacy is another key issue in online global marketing. Many web publishers in some European and Latin American countries do not share data about site visits. Advertising deals are often made in these areas because of personal relationships between the publisher and the advertiser.

### Think Globally

#### International Marketing Research

- **Value Diversity, Consider Ethics and Social Responsibility, Think Globally, Enhance Productivity, Strive for Quality, and Embrace Technology** boxes highlight real, familiar companies or business issues to help students gain practical business experience and focus on the issues of concern in business today.
- Because of the prevalence of small business in the Canadian economy, many small businesses are featured in boxes and examples within the text.

- A **Solve the Dilemma** box in each chapter gives students an opportunity to think creatively by applying chapter concepts to hypothetical situations that could occur in the real world.
- **NEW!** A new end-of-chapter web research question has been added: **Searching the Online World**.

### 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 Montreal 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

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 team or group?
2. Evaluate the pros and cons of the team system adopted by QS.

### Searching the Online World

1. Explore a web site for a major retailer that you shop at, most will have an employment section. What rewards are offered to employees as

incentives for their work at the firm? What kind of motivational theory, if any, does the company rely upon?



## Review Your Understanding

Define human relations and determine why its study is important.

Human relations is the study of the behaviour of

workers dislike work, while Theory Y (humanistic) suggests that workers not only like work but seek out responsibility to satisfy their higher-order needs. Theory Z stresses employee participation in its company decision making, often participative management programs and red work teams. According to equity theory, much people are willing to contribute to organization depends on their assessment of the equity, of the rewards they will receive in. Expectancy theory states that motivation not only on how much a person wants to do but also on the person's perception of the effort he or she is to get it.

some of the strategies that managers use to motivate employees.

For motivating workers include behavior modification (changing behaviour and encouraging appropriate actions by relating the consequences of behaviour to the behaviour itself) and job design. Among the job design strategies businesses use job rotation (allowing employees to move from job to another to try to relieve the boredom with job specialization), job enlargement

## Learn the Terms

behaviour modification 234  
classical theory of motivation 226  
compressed work week 237  
equity theory 233  
esteem needs 229  
expectancy theory 233  
flextime 237  
human relations 224

hygiene factors 229  
job enlargement 235  
job enrichment 236  
job rotation 235  
job sharing 238  
management by objectives (MBO) 240  
Maslow's hierarchy 228  
morale 225

motivation 224  
motivational factors 230  
physiological needs 228  
security needs 228  
self-actualization needs 229  
social needs 229  
Theory X 231  
Theory Y 231  
Theory Z 231

## Check Your Progress

1. Why do managers need to understand the needs of their employees?
2. Describe the motivation process.
3. What was the goal of the Hawthorne studies? What was the outcome?
4. Explain Maslow's hierarchy of needs. How does it tell us about employee motivation?
5. What are Herzberg's two-factor theory and its implications for the workplace?
6. What is Theory Z? How can businesses apply Theory Z to the workplace?
7. What is Theory Z? How can businesses apply Theory Z to the workplace?
8. Identify and describe five job-design strategies.

## Get Involved

1. Consider a person who is homeless: How would he or she be motivated and what actions would that person take? Use the motivation process to explain. Which of the needs in Maslow's hierarchy are likely to be most important? Least important?
2. What events and trends in society, technology, and economics do you think will shape management theory in the future?
3. Describe a motivation program for hourly paid restaurant workers, high-paid management consultants, and single-parent office clerical workers. Would the same technique work for all?

Investigate various theories of motivation,

and how they are applying to boost morale and productivity.

## Build Your Skills

## Appreciating and Valuing Diversity

**Background:** Here's a quick self-assessment to get you to think about diversity issues and evaluate the behaviours you exhibit that reflect your level of appreciation of other cultures:

Do you ...	Regularly	Sometimes	Never
1. Make a conscious effort not to think stereotypically?			
2. Listen with interest to the ideas of people who don't think like you do?			
3. Respect other people's opinions, even when you disagree?			
4. Spend time with friends who are not your age, race, and gender, or who do not have the same economic status and education?			
5. Believe your way is <i>not</i> the only way?			
6. Adapt well to change and new situations?			
7. Enjoy travelling, seeing new places, eating different foods, and experiencing other cultures?			
8. Try not to offend or hurt others?			
9. Allow extra time to communicate with someone whose first language is not yours?			
10. Consider the effect of cultural differences on the messages you send and adjust them accordingly?			

- A comprehensive, challenging **video case** at the end of each chapter tests students' judgment and decision-making skills.
- Application-oriented **appendices** at the end of the book focus on the legal and regulatory environment and the preparation of a business plan.
- An end-of-book **glossary** is included featuring all of the margin terms and concepts boldfaced in the text.
- **Name, subject, and URL indexes** at the end of the book aid in finding topics, key companies, individuals, and web sites featured throughout the book.
- A full and robust **Online Learning Centre** at [www.mcgrawhill.ca/college/ferrell](http://www.mcgrawhill.ca/college/ferrell).

- End-of-chapter learning devices include a **summary** entitled **Review Your Understanding** that repeats chapter learning objectives, a list of **key terms**, **Check Your Progress** questions to test and reinforce understanding, and **Get Involved** exercises to challenge students to apply and expand on concepts learned in the chapter.

- A **Build Your Skills** exercise at the end of each chapter provides an opportunity to build critical skills through a variety of self-tests and other exercises.



See for Yourself Videocase

[www.cbc.ca](http://www.cbc.ca)

## Wake Up and Smell the Coffee

Every day Canadians consume over 3.5 million cups of coffee. Many people couldn't imagine starting the day without it. Canadians can be found drinking coffee at home, at work, and while they commute. For many, the coffee shop fulfills an important social need as we meet friends and acquaintances for conversation over coffee. So pervasive is our thirst for coffee, cup holders have even featured prominently as a sales point in the advertisements for new cars. Coffee consumption is a part of our culture.

Worldwide coffee represents a US\$55 billion a year industry, employing 25 million people. Of those employed in the industry, over 20 million are small farmers, typically producing less than 1,500 kilograms of beans per year on one- to two-hectare properties. These growers, who struggle to survive on incomes averaging less than US\$1.00 per day, receive less than 10 percent of the retail value of their product.

The low prices, lower now than during the 1930s Depression, are only part of what many perceive as the unfair treatment of these farmers. As with many North American farmers, their income is received only after harvest; therefore, they must often borrow to acquire inputs such as fertilizer. For the small producers in the less developed economies, the only source of credit is often the intermediary who purchases their crop, and interest rates are often as high as 30 percent per annum. Such costs further reduce the incomes of these poorest members of society, who face the prospect of losing their land if they default on the loans.

One group attempting to improve the situation for the small growers of coffee and other commodities such as tea, cocoa, and sugar is TransFair Canada (TFC), the Canadian affiliate of Fairtrade Labeling

chemical inputs are used. The price of chemical fertilizers is also prohibitive. Therefore, almost 40 percent of the cooperatives on the FLO register were either certified organic or in the process of becoming certified as of February 2001.

Only about 22 percent of the 78.7 million kilograms of coffee produced by the FLO-registered cooperatives in 1999 was sold through Fair Trade. However, the small growers also benefit from the direct access to world markets that the cooperatives provide. This marginal increase in income when combined with the more profitable Fair Trade sales has a disproportionate economic impact on the growers. The cooperative also lowers production costs by recycling wastes into low-cost organic fertilizers, which in turn produces higher incomes for the growers and at the same time improves environmental stewardship.

Higher incomes allow the small growers to reinvest in their farms, to provide better nutrition and housing for their families, and through cooperative-funded schools, to provide more educational opportunities for their children.

These benefits accrue even though Fair Trade-certified sales in Canada, as in other countries, represent only a small but growing proportion of the total coffee market.

## Questions

1. Is it the responsibility of coffee consumers to ensure that the small producers receive a fair price for their product? Why or why not?
2. If the price paid to the grower represents only 10 percent of the retail price of coffee, why is



The **Ferrell Online Learning Centre** ([www.mcgrawhill.ca/college/ferrell](http://www.mcgrawhill.ca/college/ferrell)) provides the first introduction to a business teaching package that has a web site fully integrated with chapter content. This interactive web site for students and instructors includes a learning module for each chapter in the text. The content of the text and Online Learning Centre (OLC) focuses on maintaining the currency and integration of important concepts. We have used the latest technology and business terms to make traditional concepts more practical and applicable to students' daily lives and work.



## Support Materials for the Student

- **Student Success Centre.** Included as part of our Online Learning Centre, each chapter of the *Study Guide* includes a chapter summary; learning objectives; and true/false, multiple-choice, matching, and skill-building questions. Also look for videos and cases, and all new role plays!
- **Online Learning Centre.** A comprehensive student web site at [www.mcgrawhill.ca/college/ferrell](http://www.mcgrawhill.ca/college/ferrell) contains the following:
  1. “Cyberzones” at the end of each of the six parts of the text provide a comprehensive overview of how the Internet is being used in business today. Part One introduces the Internet and examines its five basic characteristics. Part Two examines the wealth of information available to small business owners. Part Three focuses on management’s use of the Internet, while Part Four specifically addresses Internet use in human resources management. Part Five covers e-commerce, and Part Six examines Internet use in the areas of accounting and finance.
  2. “e-Learning Sessions” include true/false and multiple-choice questions from each chapter.
  3. “Internet Exercises” provide an opportunity to reinforce chapter concepts by guiding students through specific web sites that ask them to assess information on the site and answer questions that apply chapter concepts.
  4. “Videos” provide a real-world context for chapter concepts and show how businesses move through the fast-paced world of modern commerce.
  5. “Test Your Understanding” quizzes, tied to chapter concepts and key terms.

## Support Materials for the Instructor

The following supplements are available on the Instructor’s CD-ROM, and can also be downloaded from the Online Learning Centre.

- **Instructor CD-ROM.** This CD-ROM collects all of the text’s visually oriented supplement items in one presentation management system. By combining features of the Instructor’s Manual, video notes, PowerPoint slides, Computerized Test Bank, and lecture material into an electronic format, this CD offers a comprehensive and convenient tool that allows you to customize your lectures and presentations.

- **Instructor's Manual.** The *Instructor's Manual* includes: A list of chapter learning objectives; key terms and their definitions; a lecture outline and notes; a supplemental lecture; a short discussion of a controversial issue; answers to the "Check Your Progress" questions; questions pertaining to the "Solve the Dilemma" boxes; additional discussion questions and exercises; a chapter quiz; teaching suggestions; and answers to the end-of-chapter case and exercise.
- **Computerized Test Bank.** Test your class with this easy-to-use Brownstone *Computerized Test Bank* software which contains true/false, multiple-choice, and essay questions. Questions are linked to chapter learning objectives so that instructors can tailor exams to their classes' needs. This enhanced-feature test generator allows you to add and edit questions, save and reload multiple tests, select questions based on type, difficulty, or keyword, and more.
- **PowerPoint Presentations.** Over 300 electronic slides keyed to the text are available. These slides can be modified with PowerPoint.
- **CBC Videos.** A complete set of videos is available, both from CBC and the McGraw-Hill Management library. Video cases for the student can be found in the text. And for instructors there is a video guide in the Instructor's Manual that is also downloadable from the Online Learning Centre.
- **"PageOut"—create your own course web site.** McGraw-Hill's new web site development tool allows you to create a customized web site for your course. By utilizing material located in the text, you can include features such as: Instructor information, Interactive Course Syllabus, Web Links, Discussion Area, Assignments/Quizzing, Gradebook, and Student web pages. Ask your local representative for a quick consultation.
- **WebCT/BlackBoard.** This textbook is available in two of the most popular course-delivery platforms—WebCT and BlackBoard—for more user-friendliness and enhanced features.



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Map of Canada



Source: Population data from Statistics Canada, 2001 Census Release 1, March 12, 2002. Information compiled from Fact Sheets provided by Communication Canada which can be found at <http://www.communications.gc.ca>.



## Map of the European Union



Map of the World

Map of the European Union

Scale: 1 to 125,000,000  
0 1000 2000 Miles  
0 1000 2000 3000 Kilometers  
Note: All world maps are Robinson projection.





