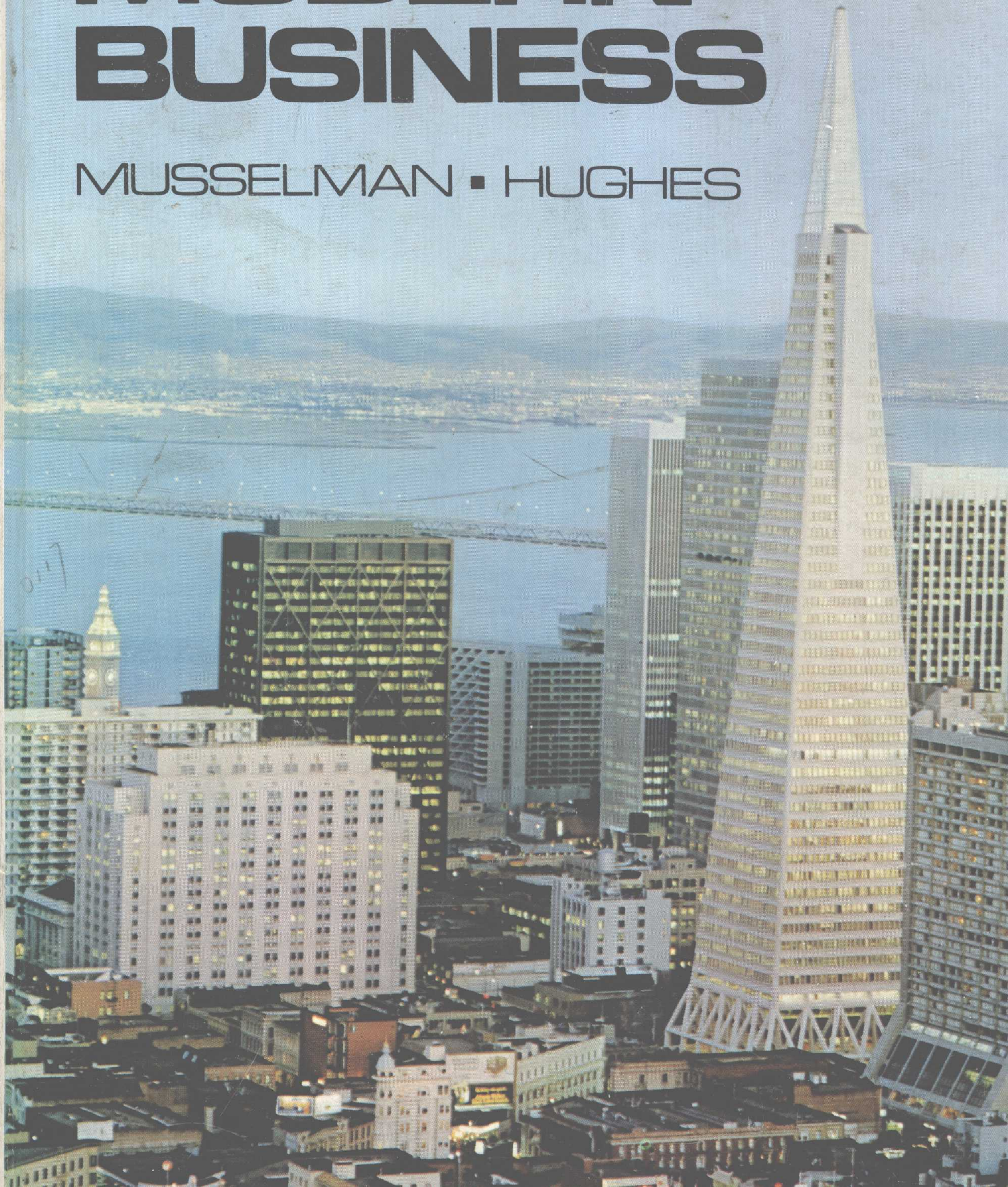


Introduction to **MODERN BUSINESS**

MUSSELMAN • HUGHES



Introduction to

ISSUES and

seventh edition

Vernon A. Musselman

Professor, Business Education, University of Kentucky

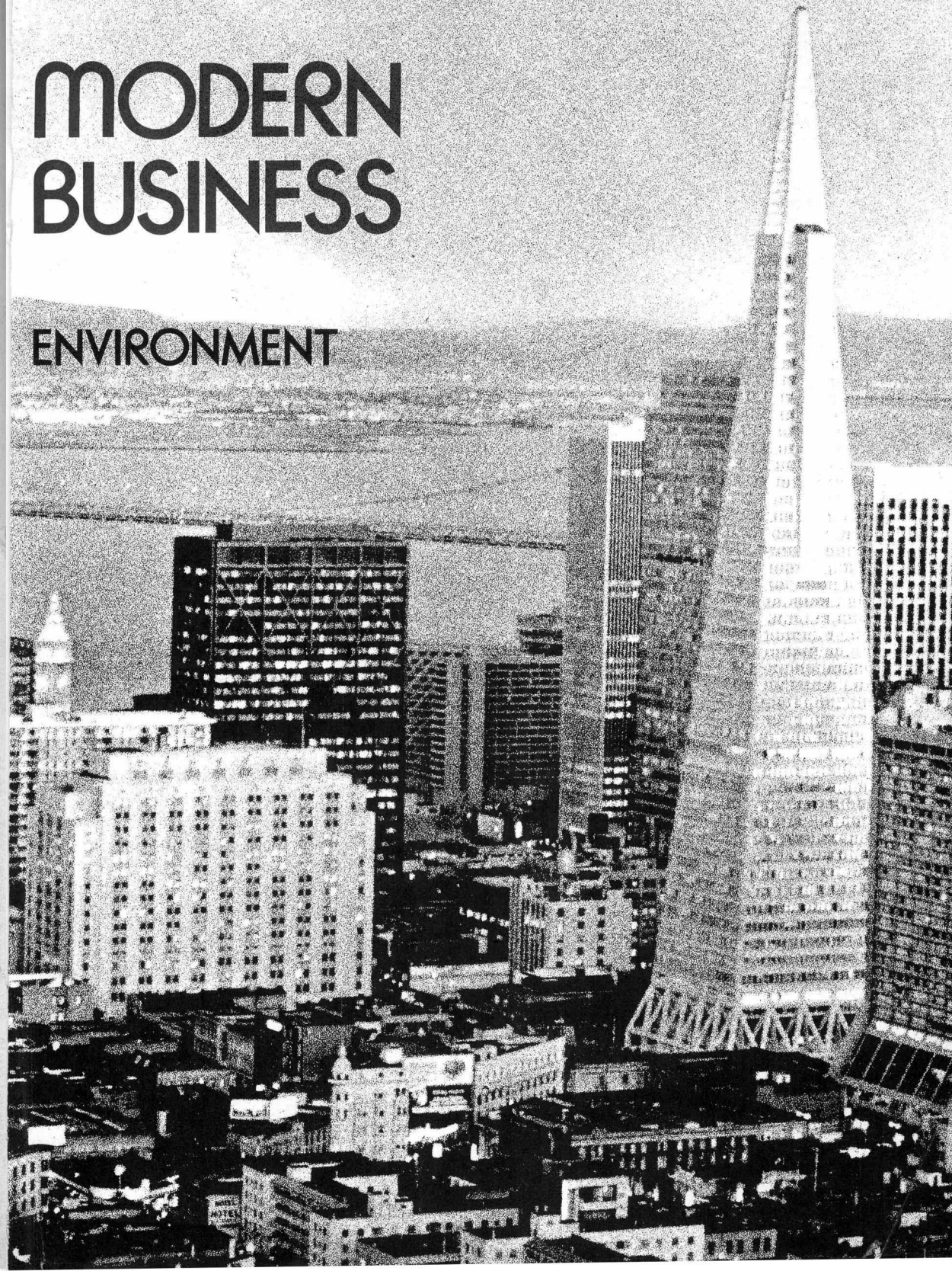
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MODERN BUSINESS

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Issues and Environment

seventh edition

Vernon A. Musselman and Eugene H. Hughes

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to

Jean and Ruth,
whose patience has endured
seven editions

PREFACE

The study of business can be both interesting and rewarding. Business is constantly changing, however, and college textbooks in this field need revising in order to be up to date.

This seventh edition of *Introduction to Modern Business: Issues and Environment* is a thorough revision. Our aim is to present a comprehensive explanation and analysis of the business field in an interesting, challenging, and meaningful way. Many changes result from suggestions offered by teachers of the previous editions. The authors have relied heavily on behavioral science to explain how people behave in work situations in small and large enterprises. We have added more business history as a help in understanding the future. Since business plays a highly important role in our society, the relationship between business issues and our environment has an important place. Another feature is the emphasis on business careers.

The twenty-three chapters are grouped into six parts based primarily on functional areas of business and on environmental issues and problems. In Part One, Chapter 1, "The American Business System," is new. In Part Two, Chapter 8, "General Management—Theory and Practice," now includes a discussion of the schools of management thought that have emerged in the process of molding future managers. Chapter 10, "Minorities and Women in Business," summarizes the legal and social issues of human rights and recent legislation. Part Three, which deals with operational aspects of the business enterprise, includes Chapter 14, "Energy Resources and Conservation," an area now demanding attention as a national policy. In Part Four, all three chapters are new: Chapter 15, "The Marketing Function"; Chapter 16, "Products and Distribution Channels in Marketing"; and Chapter 17, "Price and Promotion in Marketing."

This edition continues to make extensive use of color to highlight the

more important items, including selected sentences and section headings. Color is also used in charts, graphs, and drawings to which we have given special emphasis. Discussion questions are again interspersed throughout the text, so that students can relate more effectively to the subject at the time it is being studied. Each chapter has a vocabulary review test; and at the end of the book there is a glossary of business and economic terms. We hope these will be valuable tools to help students improve their familiarity with the many aspects of business terms and concepts.

Chapters have their own introductions, summaries, and suggestions for further readings. Problems, projects, and business cases appear at the end of every chapter. There is also a battery of objective tests for the entire book and a collection of transparency masters useful as visual aids in class discussions. These masters are available upon request without cost. A revised *Study Guide and Workbook* contains new problems, projects, questions, and tests. It also features a collection of readings from current periodicals. An *Instructor's Manual* is available with the adoption.

Because this book, though written as an introductory text, is a study in depth of many phases of business, it may be used not only by those who plan to major in business administration but also by those in other fields who want to take only one course in business.

The authors express their appreciation to Dr. Bruce J. Walker, Associate Professor of Marketing, College of Business Administration, Arizona State University; Professor Pierre G. Rothstein, Oakton Community College, Morton Grove, Illinois; Dr. Z. S. Dickerson, Professor of Business Education, Madison College, Harrisonburg, Virginia; Dr. Hilton D. Shepherd, Shepherd Associates, Fort Worth, Texas; and Professor Kathy Hegar, Mountain View College, Dallas, Texas. We also wish to thank Robert F. Snowball, Account Executive, Merrill Lynch, Pierce, Fenner & Smith, Inc., Santa Barbara, California; Jerome Sterling, Vice President, M. C. Horsey & Company, Inc., Salisbury, Maryland; and David R. Sargent, President, United Business Service, 210 Newbury Street, Boston, Massachusetts.

To the many users of previous editions who submitted suggestions, the authors are grateful. We also express our appreciation to the numerous business firms and organizations that have permitted us to reproduce illustrations from their publications and about their companies.

Our special thanks go to the cooperative staff of Prentice-Hall, Inc., our publisher, including Robert Heidel, who contributed heavily to the book's design and readability; Earl T. Kivett, editor of business books, for his interest and direction; and Paul McKenney and Linda Herzig, who kept watch on the production schedule of the *Study Guide* and *Instructor's Manual*.

VERNON A. MUSSELMAN
EUGENE H. HUGHES

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PART

ONE

**BUSINESS
AND ITS
ECONOMIC
AND SOCIAL
ENVIRONMENT**

1

THE AMERICAN BUSINESS SYSTEM

Modern business is a complex scheme of relationships among many kinds of profit-making and nonprofit private enterprises. Business refers to the commercial life of a country. It provides a wide variety of goods and services for institutions and individuals.

In writing about business, H. Gordon Selfridge said:

Get the confidence of the public and you will have no difficulty in getting their patronage. Inspire your whole force with the right spirit of service; encourage every sign of the true spirit. . . . Treat customers as guests when they come and go, whether or not they buy. Give them all that can be given fairly, on the principle that to him that giveth shall be given. A person remembers quality long after the price is forgotten.

Although this may sound idealistic today, it does describe a standard toward which most American entrepreneurs strive. As we progress through this book, we shall see that the dual objective of business is to serve others while earning a profit for oneself.

OUR BUSINESS SYSTEM

For our purpose in this chapter we shall use the term *business* to include all organized activities designed to produce and distribute goods and services in order to meet our economic needs.

Business Development in Colonial Days

Often when asked why the early settlers came to America, people have said it was for "religious freedom." Although there is much truth here, the early expeditions to this new land were in fact business ventures backed by businessmen in Europe. The urge to settle the New World was not so much an "individual matter" as an extension of Europeans risking their capital in a new venture. This country was not so much "conceived in liberty" as in a search for a better economic opportunity.

The first business development in the New World was a combination of agriculture and trade. Between 1600 and 1800, nine out of ten persons lived and worked on farms. Some trade was carried on in furs, fish, lumber, naval stores, grains, tobacco, and cattle.

The Parliament of England in 1699 prohibited the colonies from exporting wool yarn or cloth. Although bars of iron could be shipped to England for processing, the operation of rolling mills in this country was forbidden. In 1767 Great Britain enacted the Townsend Acts, which levied duties on imports of glass, lead, paper, and tea. No wonder Adam Smith, who believed in free trade—laissez faire by government—wrote in his *Wealth of Nations* in 1776:

To prohibit a great people, however, from making all that they can of every part of their own produce, or from employing their stock and industry in the way that they judge most advantageous to themselves, is a manifest violation of the most sacred rights of mankind.

Shipping was one of the earliest business developments in the New World. After the Revolutionary War, shipyards were busy building crafts to carry the goods that resulted from the rapid rise in trade. By 1810, American-owned ships hauled 90 percent of both imports and exports. The perfecting of the steam engine in 1769 by James Watt and the invention of the cotton gin in 1793 by Eli Whitney furthered the development of textile mills in the North.

A gap that existed between the factories and retail shops was bridged by a rapidly developing group of wholesale merchants, who concentrated on groups of products, such as groceries, textiles, and hardware items. They were brokers representing many producers of a single line of goods. These merchants specialized to the point that