

Second Edition

# BUSINESS

## THE WORLD OF

Lawrence J. Gitman  
and Carl McDaniel





Second Edition

WORLD OF  
THE WORLD OF

# FINANCIAL MARKETS

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# PREFACE

## TO THE INSTRUCTOR

*Quality, value, ethics, global business, and entrepreneurship* are but a few of the many important terms and concepts in today's business vocabulary. This second edition of *The World of Business* offers value for students and instructors by carefully weaving the threads of ethical, global, and entrepreneurial behavior into the fabric of business. Like any product sold in a competitive market, this book has been carefully researched, developed, designed, and produced.

## A CAREFULLY DEVELOPED TEXT

*The World of Business* has been developed and revised to provide students with one of the most lively, interesting, stimulating, and up-to-date textbooks they will use during their college careers. To meet the market need, we've created an intellectually sound textbook at the highest standard of quality. The book has been written with both the student and the instructor in mind.

Our market research shows that, above all, instructors design their courses to explain the functions of business. They are also interested in exploring current trends in business and exposing their students to career opportunities. With those points in mind, we have stressed core ideas, currency, and careers.

We have taken special care to achieve a fine balance between breadth and depth of coverage. Because this is the only course in which students are exposed to *all areas* of business, subjects must receive more than a quick once-over. We have done extensive research to ensure that the right material is covered in sufficient depth to provide a solid foundation for future study. Before each chapter was written, current literature on the subject was thoroughly reviewed. Traditional concepts were updated with the latest findings and contemporary business practices.

Breadth is also important, because students need to appreciate the interplay among the functional areas of business. They also need to understand how business interacts



with government and how international activities affect firms. Students need to appreciate how the various components of, say, the banking system fit together and interact. They must also come to appreciate how the key functional areas of business affect society.

## A DELIGHTFUL AND ENJOYABLE BOOK TO READ

As a busy instructor, perhaps teaching over a hundred students and several different subjects, you recognize the importance of choosing the right textbook. The first criterion for success is that the book hold the reader's interest. There's probably no greater hindrance to learning (and teaching) than a dull textbook. Thus we've invested extensive effort in making *The World of Business* a truly pleasurable and captivating reading experience. We've tried to accomplish this in a variety of ways:

- *A lively, informal writing style developed over the years by two highly experienced and successful authors:* Careful attention to language and the use of hundreds of real-world examples make *The World of Business* readable and engaging.
- *A prologue that sets the tone:* Students must learn from the start that business operates in an ever-changing environment. Successful organizations plan for the future and understand how emerging trends will affect them. To help students understand the ever-changing world of business, we feature examples through the text in eight critically important areas that will impact tomorrow's organizations. These trend areas are explained in detail in the Prologue.
- *Fascinating examples of major trends:* Two carefully researched examples of business trends are featured in each chapter. These boxes were unanimously well-received and praised in the first edition, and we have included the feature again in this edition.

Most of the stories in the trends boxes are new in the second edition. They were chosen for their importance to business,

their timeliness, and their interest to students. These trends complement the multitude of real-world examples woven into the text. Examples of **social and demographic trends** are engaging and relevant to everyone; for business, these trends will determine who will buy what, how much, and where. **Trends in technology** have radically affected how we live and how we do business. Indeed, technology itself has become a giant business. **Trends in global competition** are changing the status of the United States as the premier economic power. To compete in the global marketplace, the way we do business will change. New to this second edition, **trends in quality management** relate both to productivity and profitability and apply to all aspects of a firm's operations. **Trends in service businesses** involve the unique challenges of providing services, rather than goods, in developed economies. **Small business trends** preview new opportunities and challenges that are on the horizon for entrepreneurs in a global economy. **Trends in business ethics and social responsibility** are critically important because firms operate within communities, not in a vacuum. Managers can make socially conscious decisions that are good for both businesses and society. Finally, **trends in business today** are interesting stories about business and helpful hints for students. The specific trends boxes and topics are set in bold italic type in the detailed table of contents.

- *Videos that bring the text to life:* The videos that accompany the text focus on real people in real jobs. Each part opens with two videos: one that describes the general topics to be covered in that part of the book and a second that profiles a company in a related business. Videos at the beginnings of chapters look at the educational and business experience of a recent college graduate working in the area of business about to be discussed. The young employees featured in the videos come from a va-




riety of backgrounds—mostly business majors. They discuss how they found their jobs and how they put to use on the job what they learned in their college coursework. *These videos clearly illustrate to your students how the material they are about to read has everyday relevance to a recent former student.* The videos serve as a springboard to help enliven the classroom experience. Brief sections at the beginnings of parts and chapters in the textbook provide text background for these videos.

- *Special emphasis on career opportunities:* A **Career Appendix** at the end of each part of *The World of Business* begins with a general discussion of careers relevant to the material just completed (such as management, marketing, or finance). We then feature a Dream Career. The dream career is one that offers excitement, advancement, high earnings, and self-fulfillment. The reviews of specific jobs that follow include information on the skills and education required, where the best opportunities can be found, the employment outlook through 2000, and the salary range. At the end of the text, the Epilogue provides tips on how to find one's first career position. We then follow with suggestions for holding that first position and advancing from it.
- *An outstanding design:* A book's design is important. When accompanied by relevant content and sound writing, the design can attract students to read and learn. A great deal of thought went into the design of *The World of Business*. This beautiful book reflects the work of artists and editors whose shared vision was a stimulating but uncluttered appearance. We are proud of the subtleties of the clean and cohesive look and believe that it will be a pleasure for students to read.
- *A creative, customized art program:* We incorporate 240 illustrations and nearly 170 full-color photographs throughout *The World of Business* to illustrate concepts and drive home key points.

## A PROFESSIONAL LEARNING TOOL

Creating a book that's a pleasure to read is an important step in developing an effective learning tool. Still, pedagogical devices are necessary to complete the task. Every chapter in *The World of Business* offers:

- *An Integrated Learning System:* Each chapter contains learning goals that challenge the student to explain, discuss, understand, and clarify the concepts presented. Each objective is identified by a numbered icon: , which is repeated in the chapter next to relevant text discussions. The numbered objectives are also identified in the *Instructor's Resource Manual*, *Test Bank*, and *Study Guide*. The integrated learning system enables you and your students to find and focus on mastery of stated objectives.
- *Numerous full-color photos and illustrations:* An integral part of the book's design, the illustrations present critical data and ideas in a clear, engaging manner. The photos are unusually interesting and are linked to the text by thought-provoking and informative captions.
- *Concept checks:* These questions, at the end of each major section in each chapter, prompt students to review key concepts in the material just covered.
- *Key terms:* Students' business vocabularies will be built on critical terms that are set off in boldface type. The key terms are also defined in the margin for quick review and are listed for quick reference at the end of each chapter. The terms can also be found in a glossary at the end of the book.
- *A comprehensive summary:* A summary—tied to the learning goals—appears at the end of every chapter. Each learning goal is listed and followed by relevant summary information.
- *Discussion questions:* At the end of every chapter, we present a series of thought-provoking questions designed to stimulate class discussion.
- *Case studies:* Brief, lively, and timely cases are written in a style that will enhance stu-



dent learning. Case topics were carefully selected to be up-to-the-minute and challenging. They include such topics as K-mart's expansion into Central Europe, the ethics of a company's move out of an inner-city neighborhood, reviving Los Alamos as an industrial research and development center, management techniques in the development of Microsoft's Windows NT, and the ethics of advertising malt liquor.

## A TEXTBOOK MODEL OF FLEXIBILITY

The structure of *The World of Business*, including chapter sequence and topical coverage, reflects the issues relevant to today's—and tomorrow's—business environment. The structure also gives instructors tremendous support and freedom. The Prologue introduces the eight trends that are featured throughout the book. Part One explores the economics of business in chapters on business systems and the business economy. Part Two provides a solid overview of the business environment in a brand-new chapter on our multicultural society and its implications for business, along with chapters on global business and the important topics of social responsibility and business ethics. Part Three looks at business structures: the forms of business organization and an exploration of entrepreneurship, small businesses, and franchises. At the end of these three parts, the stage is set for the entrance of the functional business disciplines.

The remainder of *The World of Business* covers the major content areas, in this sequence:

- Part Four    Management
- Part Five    Human Resources
- Part Six     Marketing Management
- Part Seven   Management Information Tools
- Part Eight   Finance

Part Nine covers further dimensions of business in two chapters, one on the legal and tax environment of business and the second on risk and insurance. The text concludes with the Epilogue, which discusses how to find and hold that first job after graduation.

Each of these nine parts has been designed to stand alone as a logical, highly teachable unit. Although the chapters have been sequenced in the most popular order, many other sequences are possible. For example, the Legal and Tax Environment (Chapter 23) could easily be covered before Money and Financial Institutions (Chapter 20). Our flexible chapter design allows instructors to conveniently and effectively create other course structures.

## CHANGES IN THE SECOND EDITION

Throughout the text we have carefully updated in-text examples with recent happenings from the business world. We have also replaced most of the trends boxes and end-of-chapter cases in the book; those that remain we feel are classic teaching and learning vehicles. In addition, we have made the following specific changes within individual chapters:

- *Chapter 1:* Updated material on communism and the political situation in Eastern Europe. Updated discussion of automation and computerization in the section entitled "The Technology Revolution." Added a section on the importance of *knowledge workers* in the modern economy. Introduced the concept of *reengineering* in the section on the changing corporate scene.
- *Chapter 2:* Changed the discussion of GNP to follow the new government usage of *GDP*. Revised the material on the service sector, to consider the issues of *service sector productivity* and the *export of services*. Added a new section on the dislocation of the work force, including *downsizing* and the resulting *white-collar unemployment*.
- *Chapter 3:* This *new chapter* titled "Our Multicultural Society and Its Implications for Business" discusses the important demographic and cultural changes taking place in the United States, and it considers their implications for regions, the business community, and society at large. The chapter then looks, in turn, at the demographic and marketplace patterns associated with



significant groups in our diverse society: African-Americans, Hispanic-Americans, Asian-Americans, and Native Americans. Finally, the chapter explores some of the key effects of cultural diversity in the American workplace.

- *Chapter 4:* Updated material to reflect changing trade developments and laws, specifically *GATT*, the *G7 countries*, leveling the playing field with Japan, the *Maas-tricht Treaty*, *NAFTA*, and *international franchising*.
- *Chapter 5:* Added the concept of a *glass ceiling* in the gender discussion and expanded the discussion of what the *Americans with Disabilities Act* means for U.S. business.
- *Chapter 6:* Updated material on trends in mergers and acquisitions, including *LBOs*. Added brief coverage of *S corporations* and *limited liability companies*.
- *Chapter 7:* Revised small business material to include technology as an important factor. Expanded and updated franchising material, to include new information on types of franchising, franchising opportunities for women and minorities, and pitfalls to be aware of in franchising.
- *Chapter 8:* Revised and strengthened the material on leadership styles.
- *Chapter 9:* Added discussions of *reengineering* the corporation and “*partnering*” (virtual corporations).
- *Chapter 10:* Added coverage of *environmental issues* in manufacturing, *continuous improvement*, *concurrent engineering*, and *flexible plants*. Expanded material on quality management, which now includes *benchmarking* and quality measurement, including *ISO 9000*.
- *Chapter 11:* Added section on *equity theory*.
- *Chapter 12:* Added information on the new *Family and Medical Leave Act of 1993*, the affirmative action record of the 1980s, benefits of employee training, and a partial sample performance appraisal form.
- *Chapter 13:* Added coverage on *labor problems in small firms* and the effects of *reengineering/downsizing* on the work force.
- *Chapter 14:* Added material on *middle-aged*, “*older*,” and *single consumers*.
- *Chapter 15:* Expanded material on *importance of new products* to a firm’s profitability and added section on value marketing.
- *Chapter 16:* Reorganized material on vertical marketing systems and market coverage. Added new section, “What’s ‘In Store’ for Retailing’s Future?” including discussion of *advanced store technology* and *global retailing*.
- *Chapter 17:* Added section on *advertising regulation*, including *industry self-regulation* and federal regulation, and material on *combining push and pull strategies*.
- *Chapter 18:* Added material on *CD-ROMs*. Expanded coverage of both *local* and *wide area networks*, including the *Internet*. Expanded and revised material on *telecommuting*.
- *Chapter 19:* Added discussion of *international accounting standards*, *government regulatory organizations*, and *common-size financial statements*. Now includes exhibits of *sample statement of cash flows* and *sample common-size income statement*.
- *Chapter 20:* Added discussion of *M1*, *M2*, *M3* and of pressure on banks to make *minority loans*. Updated material on the S&L crisis, problems in banking, international banking, and the future of banking, including *expansion of banking services*, *mergers and interstate banking*, and *regulatory reforms*.
- *Chapter 21:* The order of the chapters on financial management and the securities markets was switched, so that in this edition financial management comes first. Expanded capital budgeting coverage to include *qualitative factors* involved in the capital budgeting decision. Added new section on *cost of capital*, following the material on leverage which has been condensed. Revised and updated coverage of *venture capital*.
- *Chapter 22:* Added new material on *mu-*



*nicipal bonds, underwriting, laws that regulate the securities markets, and securities order types (market order, limit order, stop-loss order). Revised discussions of market averages and market indexes, and ethical issues, including up-to-date examples of some well-known ethical lapses in finance.*

- *Chapter 23:* Added new sections on *arbitration and mediation* and on *deregulation of the telecommunications industry*. Updated tax material for *new tax law*.
- *Chapter 24:* Added material on *Superfund* and on *title insurance*. Updated *issues in health insurance*.

## INSTRUCTOR'S RESOURCES SECOND TO NONE

*The World of Business* reflects an awareness of the tremendous importance of the first course in business. We've created teaching materials to minimize classroom preparation time and to maximize the student's understanding and appreciation of the world of business and *The World of Business*. The particular emphasis on vocabulary building and integrated learning goals throughout the package ensures that students will succeed in meeting learning objectives and mastering key terms. The package is thorough:

- *Instructor's Resource Manual:* This volume is a comprehensive guide to building a system of customized instruction. The manual begins with sample course outlines and a discussion of learning and teaching strategies for the course. Following this overall introduction to the textbook are detailed lecture outlines for each chapter. Each outline suggests a way to organize lectures, bring in outside examples, and encourage class discussion. Special emphasis is placed on how major chapter points can be reinforced through transparencies, discussion questions, trend areas, and so on. Also included are suggested homework assignments for students and classroom exercises. Answers to discussion questions are included for each chapter, as well as answers to end-of-chapter cases. Teaching tips and creative ideas for classroom activities are included as well. The goal in designing this manual was to integrate the pieces of the package to support the instructor's classroom lectures and discussions while creating a high level of interest for students. The *Instructor's Resource Manual* is also available on computer disk so that you can customize it to fit your own teaching style and needs.
- *Videodisc Technology:* Videodisc is the ultimate multimedia approach to classroom presentations. Its flexibility and ease of use make it a dynamic tool for instructors. *The World of Business* videodisc contains text-integrated video, definitions, transparencies, and animated illustrations for classroom projection. The videos and other segments can be viewed in any order, and with an optional computer and South-Western software, a complete video "script" of a classroom presentation may be prepared ahead of time. An accompanying *Videodisc Instructor's Guide* describes how to integrate this technology in the classroom. A compatible "CAV-type" videodisc player is required to use this ancillary.
- *Videos tied to the textbook:* As noted earlier, Part Overview, Business Profile, and Career Profile videos have been produced to support and be integrated in the textbook. The video segments are 3 to 5 minutes in length and include all sizes and types of businesses.
- *Test Bank:* Containing over 3,600 test items, the test bank was carefully reviewed by instructors who teach the Introduction to Business course to ensure that questions are well-written, varied, and valid. A grid at the beginning of each chapter of the printed test bank shows which test items relate to which learning objectives in the chapter. The test bank is available in both IBM-compatible and Macintosh disk formats.
- *Color transparencies:* A wealth of colorful acetate transparencies—200 in this edition—are available to enhance lectures



and discussions. About one quarter of them reproduce key illustrations from the textbook. The remaining three-quarters are customized teaching transparencies developed to add interest to classroom lectures.

- *Student Study Guide*: Each part opens with a list of the chapters in that part and a discussion of the purpose of the part. For each chapter, the *Study Guide* includes a chapter outline and learning objectives. This opening material is followed by self-tests tied to the learning objectives, including true/false, multiple-choice, and matching-definitions tests, and a short-answer essay section that reviews the chapter's highlights. Each chapter ends with two experiential exercises. The answer key to all of the self-tests is included at the end of each chapter of the *Study Guide*.
- *Business Simulation Software*: South-Western College Publishing offers software simulations that can be used with *The World of Business*. User's guides are available to reinforce concepts as they are learned.

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Sincere appreciation is also extended to those who prepared supplementary items in *The World of Business* package. The *Study Guide* was written by Jerome Kinskey and Scott King of Sinclair Community College. Gene Hastings of Portland Community College prepared the *Test Bank*. Elizabeth Elam

of CUNY-Baruch College revised the *Instructor's Resource Manual* for the new edition. Mark Di Stasi, Suzanne Warden, and Becky Jones of Paradigm Communication Group oversaw the research, writing, and production of the video part and chapter openers integrated throughout the textbook. They worked with various business professors to select appropriate companies and recent graduates for the videos.

Special recognition goes to the professionals at South-Western College Publishing who assisted in making the second edition of *The World of Business* a reality. The skills of developmental editor Ann Torbert contributed significantly to this textbook. Sponsoring editors Alice Denny and Dennis Hanseman provided excellent editorial support and coordination. Production editor Eric Carlson took a complicated project and skillfully navigated it through the production process. Development and production of the videos and videodisc were ably handled by media and technology editor Sherie Lajti. Finally, we are indebted to our acquisitions editors Randy Haubner and Rob Jared, who put both time and money on the line in support of this project.

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*Lawrence J. Gitman*  
*Carl McDaniel*



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## ABOUT THE AUTHORS



**Lawrence J. Gitman**, Professor of Finance at San Diego State University, is the author of a number of best-selling textbooks, including *Principles of Managerial Finance*, *Personal Financial Planning*, and *Fundamentals of Investing*. His *Investment Fundamentals: A Guide to Becoming a Knowledgeable Investor* was selected as one of 1988's best personal finance books by *Money* magazine. Professor Gitman, who received his Ph.D. from the University of Cincinnati, has served on the faculties of The University of Tulsa and Wright State University. In addition, he has earned the professional credentials of Certified Financial Planner (CFP) and Certified Cash Manager (CCM). His research has appeared in *Financial Management*, the *Financial Review*, the *Journal of Risk and Insurance*, and many other publications. He is past president of the Academy of Financial Services, the Midwest Finance Association, and the FMA National Honor Society. An avid bicyclist, he lives with his wife and two children in La Jolla, California.



**Carl McDaniel**, Professor of Marketing at the University of Texas, Arlington, has been a classroom teacher for over twenty years and is the winner of two outstanding teaching awards, the most recent of which was given by the Academy of Business Administration. His research has appeared in the *Journal of Marketing Research*, the *Journal of Marketing*, and the *California Management Review*, among many others. In addition to *The World of Business*, he has co-authored *Principles of Marketing* and *Contemporary Marketing Research*. Before receiving his Ph.D. from Arizona State University, Professor McDaniel worked as a district sales manager for Southwestern Bell. He has also been co-owner of a marketing research firm, and his business experience is reflected in this book. In his spare time, Professor McDaniel enjoys skiing and fishing.



## TO THE STUDENT

We wrote *The World of Business* with you in mind. Your study of the many exciting aspects of business described in this book will open the door to the wide, wide world of business. We hope it will motivate you to pursue further business studies and choose a career in business, small or large.

Whatever your career path, we urge you to open your mind, relax, and enjoy this textbook. Its exciting format, lively writing style, interesting illustrations, and many learning tools should make your first exposure to the study of business pleasant as well as highly informative.

To help you understand the career opportunities that await you in the business world, we've included two items that relate specifically to careers: The first is videos that tell the stories of recent college graduates and their experiences so far in the business world. Profiles of these young men and women are included in the textbook at the start of each chapter. These videos clearly show you how the material you are about to read has everyday relevance in the job world. The second item related to careers is the career sections at the end of each part. These sections preview specific jobs and describe where opportunities can be found, what skills are required, the employment outlook through the year 2000, and salary ranges. Also, the book's Epilogue will help you prepare for finding the right job.

The glossary at the end of the book and the marginal definitions throughout the chapters will help you define and understand key business terms. For your convenience, at the end of each chapter, key terms are listed along with the page number on which they are first discussed.

At the end of each major section of the text, we have included Checkpoints. These review questions are there to encourage you to stop and think about the material you have just read. We urge you to take the time as you do your assigned reading to stop and try to answer the checkpoint questions. Be honest with yourself in assessing what you have truly

mastered and what you need to reread or review before you go on to the next section.

For extra help, the *Student Study Guide* for *The World of Business* is an option available to further enrich your first exposure to business. For each chapter, the guide includes chapter outlines and highlights, self-tests with answers, and a set of experiential exercises. This guide should ease and augment your learning experience.

Now a bit of advice: You will see that most of the young graduates profiled in the videos chose to major in business disciplines in college, and they discuss how the learning that took place in their college courses has helped them in their careers. Those graduates who were liberal arts majors have had to learn some things on the job that their business-major classmates learned in school. Nevertheless, many of the non-business majors mentioned in their interviews that what they found especially useful in business were two skills developed in their college courses: the ability to clearly think through a problem and the ability to communicate well with others, both in writing and orally. Of course, we hope you choose a business discipline as a major, but wherever your talents take you, please be sure to take seriously the need to develop your thinking and communicating skills along the way. They'll be of great use to you in your eventual career—and in life generally.

We applaud you for choosing to learn about the business world. We're confident that this textbook and the study guide will greatly enhance your learning experience. Perhaps they will even help inspire you to pursue further studies in business. We hope you'll enjoy the world of business!

*Lawrence J. Gitman*  
*Carl McDaniel*





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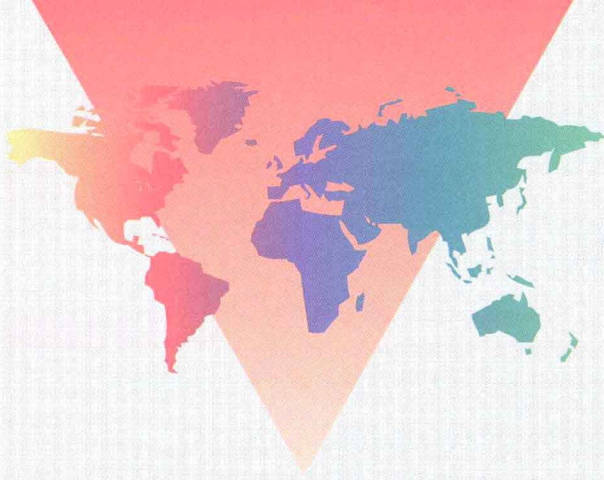
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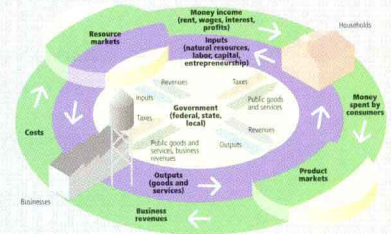
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