



Third Edition

UNDERSTANDING BUSINESS

NICKELS ▼ MCHUGH ▼ MCHUGH

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Cover model builder: George E. Slye
Cover photographer: Paul Avis Photographer, Inc.
Part opening photographs: Paul Avis Photographer, Inc.

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Senior production manager: Bob Lange
Designer: Heidi J. Baughman
Art manager: Kim Meriwether
Photo research coordinator: Patricia A. Seefelt
Compositor: Carlisle Communications, Ltd.
Typeface: 10/12 Bembo
Printer: Von Hoffmann Press

Library of Congress Cataloging-in-Publication Data

Nickels, William G.

Understanding business / William G. Nickels, James M. McHugh,
Susan M. McHugh. — 3rd ed.

p. cm.

ISBN 0-256-09548-5

1. Business. 2. Business—Vocational guidance. I. McHugh, James
M. II. McHugh, Susan M. III. Title.

HF5351.N53 1993

650—dc20

92-17456

Printed in the United States of America

1 2 3 4 5 6 7 8 9 0 VH 9 8 7 6 5 4 3 2

To our parents, true entrepreneurs who took a risk without knowing what they would get in return. The interest for their investment in us is our gratitude and love.

and

To those businesspeople throughout the world who are working to create free markets so that everyone can enjoy the peace and prosperity we now enjoy.

ABOUT THE AUTHORS



Dr. William G. Nickels is an associate professor of business at the University of Maryland, College Park, Maryland. He has over 20 years of teaching experience. He teaches introduction to business and marketing principles to large sections (250 students) each semester. Bill won the Outstanding Teacher on Campus Award at the University of Maryland in 1985. He has also won teaching excellence awards in the Division of Behavioral Science and in the College of Business and Management. He was again nominated for the Outstanding Teacher on Campus Award two out of the last three years.

Dr. Nickels received his M.B.A. degree from Case Western Reserve University and his Ph.D. from The Ohio State University. He has written a principles of marketing text and a marketing communications text in addition to many articles in business publications. Bill is a marketing consultant and a lecturer on many business topics.



Jim McHugh is an associate professor of business at St. Louis Community College—Forest Park. Jim holds an M.B.A. and has broad experience in both education and business. In addition to teaching several sections of Introduction to Business each semester for 14 years, Jim has maintained adjunct professorships at Lindenwood College and Fontbonne College, teaching in the marketing and management areas at both the undergraduate and graduate level. Jim has conducted numerous seminars in business and maintains several consulting positions with small and large business enterprises in the St. Louis area. He is also involved in a consulting capacity in the public sector. Jim authored several textbook supplements, including study guides and test banks.



Susan McHugh is an educational learning specialist with extensive training and experience in adult learning and curriculum development. She holds an M.Ed. and A.B.D. in education administration with a specialty in adult learning theory. As a professional curriculum developer, she has directed numerous curriculum projects and educator training programs. Susan designed and developed the instructor's manual, test bank, and computer simulation program.

PREFACE



How do you know when you have a good textbook? The adoption list is one indicator. *Understanding Business* has one of the fastest growing adoption lists in the market. The text is now used in over 300 schools around the world. However, adoptions show you only part of the picture: that professors like the book. What do students think? Thanks to the efforts of some of our users, we found out. For example, one of Verna Teasdale's students at Prince George's Community College in Maryland paid us the ultimate compliment: "The textbook is great. My friend doesn't even take this class, and he reads it!" Other students made similar comments. Many instructors are saying that their students have never been more excited by a textbook. Faculty say that students are coming to class prepared and eager to participate in discussions.

Having a second edition with such an impact puts a lot of pressure on an author team to produce a third edition of equal quality. Suggestions from reviewers and from students helped us do just that. In this edition, we added new materials to make the text even more exciting and relevant to today's college students. For example, we added more global business examples to emphasize the trend toward globalization. We begin the discussion of global business in Chapter 1 with a section on the trends toward globalization, international investments, and global entrepreneurship. We continue in Chapter 2 with a discussion of world economic systems. In addition to the international examples integrated throughout the text, we have an international box in each chapter that focuses on applying the chapter's concepts to international issues. We conclude the text with a chapter dedicated to tying all the international business concepts together.

We also added boxes that apply the material to small businesses, nonprofit organizations, and service organizations. There is a tendency in introductory texts to talk about high-profile large firms such as GM. While such companies are important to the American economy, most of the new jobs in the 1990s are most likely to emerge in small businesses and in the service sector. Nonprofit organizations apply business principles to become more effective and efficient in addressing the problems of society. We eliminated the appendix on nonprofit organizations and integrated the material throughout the text.

One of the features that students liked in the second edition was the integration of a unifying example of a hypothetical cereal, Fiberrific, throughout the

text beginning in Chapter 7. We've enhanced this example by adding an ongoing profile of an actual cereal producer at the end of each of the seven sections of the text. Referred to as a *photo tour*, these photos and accompanying essays illustrate the section's concepts in a real-life business, Ralston Purina Company.

CONTENT DIFFERENCES

Chapter 1, Trends Affecting Business, was rewritten to reflect the business trends of the 1990s. Such trends include globalization, environmentalism, and total quality. We include discussions of the latest trends such as ISO 9000 standards in Europe, empowerment, and cross-departmental cooperation.

Chapters 2 and 3 on economics were updated greatly to reflect the changes in the world and United States economies. Since this is the information age, we added information to the factors of production. We explain what is happening to the economies in the former Soviet Union, Sweden, and other nations that are in transition. We explain what Europe 1992 is all about and what it means to world trade. We also explain how former Communist countries can progress toward a free market economy.

Chapter 4 in the second edition, Forms of Business Ownership, was moved to become Chapter 6. Reviewers and students felt that it was more logical to discuss entrepreneurship and starting a small business before discussing how to structure the business. The new chapter organization also puts more emphasis on entrepreneurship, a factor that is considered by many to be a key to global growth in the 1990s.

One of our major efforts was to keep the text the most current on the market. To do that, we added new material right up until publication time. Over one third of the footnotes are from 1992. Current issues in this edition include:

- ▼ Coverage of European ISO 9000 standards.
- ▼ The Baldrige awards and other quality issues (e.g., continuous improvement).
- ▼ Supply chain management (the latest in inventory reduction efforts throughout the channel of distribution).
- ▼ Quick response (the effort by producers and suppliers to more quickly respond to market changes and sales orders).
- ▼ Self-managed teams and cluster organizations.
- ▼ Empowerment of employees.
- ▼ The latest laws on affirmative action and the disabled.
- ▼ Cross-departmental cooperation (citing the new \$1 billion plant built by Chrysler to implement this concept).
- ▼ Keiretsu and the American response to this organizational cooperation by the Japanese.
- ▼ The latest on the issue of executive pay and business ethics.

Most of the profiles and cases are new. The most popular ones from the second edition were retained. We added discussion questions at the end of each chapter. Together with the Getting Involved exercises, these questions increase student involvement and create lively classroom discussions.

CONTENT SIMILARITIES

The third edition keeps the popular prologue. There are still two chapters on economics and two chapters on entrepreneurship and small business management. Other than moving the chapter on forms of business ownership from Chapter 4 to Chapter 6, the chapters are in the same order. *Understanding Business* continues to be the most readable and interesting text on the market. It has comprehensive pedagogy that assures that students learn the material step by step. There are Progress Checks along the way and Getting Involved sections to help students apply the material so that it becomes theirs. We continue to have ethics boxes in every chapter to emphasize the need to make proper decisions as well as profitable decisions.

EXTENSIVE DEVELOPMENT

This edition has gone through several reviews. Reviewer suggestions were incorporated as much as possible. A second round of reviews helped us make sure the additions and deletions were sound.

We used the second edition in our own classes. We classroom tested the color acetates, stock market project, videos, and other elements of the package, especially the test bank, to be sure they were beneficial to both students and instructors.

PEDAGOGY

There are many pedagogical devices in the third edition of *Understanding Business*. We believe that the text has the most comprehensive pedagogy available in this market. That is one reason why students have reacted so favorably to the text. Its format assists them in doing well on exams.

Learning Goals

One of the more helpful pedagogical devices is learning goals that are tied directly to the summaries at the end of the chapter and to the test questions. Students have the chance to preview what they are supposed to know after reading the chapter, and are then able to test that knowledge by answering the questions in the summary. The study guide is also closely linked to the learning goals as part of the total integrated teaching, learning, and testing system.

Opening Profiles

Each chapter begins with a profile of a person who illustrates an important point covered in the chapter. Not all the personalities are famous since they cover small businesses and nonprofit organizations as well as high-profile large firms. These profiles provide a transition between chapters and a good introduction to the text material. Reviewers have commented very favorably on this feature.

Progress Checks

One particularly effective feature in *Understanding Business* is the use of Progress Checks. After each major topic, there is a Progress Check that asks students to try to remember what they have just read. If students are not retaining the material,

the Progress Checks will stop them and show them that they need to go back and review before they go too far. We have all experienced times when we were studying and our minds wandered. Progress Checks are a great tool to prevent that from happening for more than a page or two.

Thinking It Through

These unique inserts, found throughout each chapter, ask students to pause and think about how the material they are reading applies in their own lives. This device is an excellent tool for linking the text material to the student's past experience to enhance memory. It greatly increases student involvement in the text.

Boxes

Each chapter includes boxed inserts that apply the chapter concepts to particular themes. The themes are: small business, the service sector, nonprofit organizations, and global business. Although examples of such topics are integrated throughout the text, these boxes highlight the application of the concepts in these particular areas.

Key Terms

Key terms appear in boldface in the text the first time they are introduced to the student. They are defined in the margin, listed at the beginning of each chapter, and defined in a glossary at the end of the text. Students can thus read through the words they will encounter, spot them immediately on a page, and pause and learn them as they go along.

Photo and Illustration Essays

Each photo and illustration has a short paragraph that shows the relevance of the visual to the material in the text. We call them photo essays because they give the pictures much more meaning. The same is true of the various illustrations. The accompanying descriptions help the student understand what is being said in the illustration and what to look for to get the most out of each illustration.

Interactive Summaries

By now you know that the summaries are directly tied with the learning goals. This allows students to test themselves. The summaries are written in a question and answer format. Answering the questions and getting immediate feedback helps prepare students for quizzes and exams.

Discussion Questions

Each chapter ends with a few discussion questions to generate class discussion. The questions are meant to be controversial and to open the class to a variety of views on the subject. This is a new feature in this edition; one that was requested by several reviewers.

Getting Involved

The goal of the Getting Involved exercises is to increase student involvement in the learning process. You can assign students miniprojects that they can do to learn more about the subject. Some of it is library work, but most of it involves talking with people to obtain their reactions and advice on certain subjects. The Instructor's Manual has the Getting Involved questions one chapter earlier than the students see them in the text. In that way, the instructor can assign the work **before** students come to class. Students thus come to class better prepared to discuss the topics at hand. Many instructors were excited by the enthusiasm and willingness to participate among students as a result of these homework assignments. If your students divide these assignments among themselves, they can learn much from outside sources without any one student having to do too much work.

Practice Cases

Each chapter concludes with two cases to practice managerial decision making. These are relatively short cases because they are meant to be discussion starters and not to take up the whole class. The answers to the cases are in the instructor's manual. Supplementary cases and exercises are also included in the manual for those who have small classes.

Photo Tour

Each section of the text concludes with a photo tour of Ralston Purina Company. The essays accompanying the photos include discussion questions so that students can apply the concepts from the section themselves. The photo tour is thus an ongoing case study of a cereal producer.

SUPPLEMENTS: AN INTEGRATED TEACHING AND TESTING SYSTEM

Everything in the third edition of *Understanding Business* is designed to help teachers be more effective and to help students do better in class. It all starts with learning goals. The learning goals spell out what is expected of the student in each chapter. As students read the material, periodic Progress Checks enable them to see whether or not they understand what they have read. At the end of the chapter is a summary in a question and answer format that is tied directly to the learning goals. Students can use the summaries as mini-quizzes and test their progress. The text thus becomes a self-contained learning tool. This frees the instructor to add new material and integrate the concepts from the book.

No introductory business text package is as easy to use and fully integrated as this one. To accomplish this integration, the authors of the text wrote the instructor's manual, the test bank, and the computer software. They also prepared the new acetates and the accompanying comments. The other supplements were prepared by outstanding practitioners who used the materials in their classes. In addition to the text, the integrated teaching and testing system includes: instructor's manual, electronic instructor's manual, test bank, computerized test bank, study guide, McNick computer software, color overhead transparency acetates, videos, videodiscs, and business papers.

Instructor's Manual

The Instructor's Manual has been updated. All the material is easy to use. What makes the Instructor's Manual unique is its integration with the text and rest of the package. Each chapter opens with a description of differences between the third edition and the second edition to make conversion to the new edition as easy as possible.

After a short topic outline of the chapter and listing of the chapter objectives and key terms, you will find a resource checklist. This chart lists all of the supplements that correspond with each chapter. There is no need to flip through half a dozen sources to find what supplementary material is available.

To make the system even easier to use, the detailed lecture outline contains marginal notes recommending where to use acetates, supplementary cases, lecture enhancers, and application exercises. Of course space is available for adding personal notes of your own so that they too may be integrated into the system.

Lecture enhancers bring in the latest business and social issues. The end of each chapter has application exercises that you can duplicate and use for homework assignments and/or classroom discussions. This is a tremendous aid to new instructors and experienced instructors who would like to get the students more involved in the learning process.

Electronic Instructor's Manual

An Electronic Instructor's Manual is also available. That means that the outline of the text is available on computer disks and you can add or delete material as you see fit. You can thus rewrite the Instructor's Manual to fit your own teaching style.

Test Bank

One part of the Integrated Teaching and Testing System always receives more attention than the rest. That is the test bank. The success of a course depends on tests that are comprehensive and fair. Tests should measure a student's ability to remember the material and use the material in real-world situations. That means that the test bank must have questions that measure both recall and the ability of students to apply the material. Furthermore, there must be enough questions to change them each semester and still have high-quality tests.

The Nickels/McHugh/McHugh test bank is like no other on the market. The test bank tests three levels of learning: **knowledge** of key terms, **understanding** of concepts and principles, and **application** of principles. Each item has a unique rationale for the correct answer as well as the corresponding text page and identifies objective and learning level. There are over 4,000 test questions from which to choose.

One helpful tool, unique to this package, is a "Test Table." This chart helps you develop balanced tests by identifying items by objective and level of learning. You can then easily choose test items that test objectives at your selected level of learning.

For the ultimate in ease, each chapter concludes with a Quick Quiz. These 10-item tests are ready for reproduction and distribution for testing or for outside assignments.

The test bank also comes in a computerized version called the Irwin Computerized Testing System. You can pick and choose questions and develop tests

and quizzes in a minimum of time. The program allows you to add questions, delete questions, and edit the questions in the test bank. It is the most up-to-date computerized testing system available.

Teletest

By far the easiest way to generate an exam is to use Teletest. Teletest is a service that will generate a master copy of an exam. You can ask for specific questions, by number, or ask for questions covering various objectives at different levels of learning to be randomly selected. You will get your exam within a few days.

Study Guide

The Study Guide reinforces what is learned in the text. The Study Guide to *Understanding Business*, written by Barbara Barrett of St. Louis Community College—Meramec, is not merely a synopsis of the text or a collection of multiple choice questions. The exercises contain various forms of questions that require students to write their answers so that the material becomes part of them. It is not an easy study guide; it is an effective one that demands active participation. If your students use this guide, they will be fully prepared for class discussions and exams.

Videotapes

We prepared 25 videos for this edition. All of them are new and are tied directly to the material in the chapters. The videos show the concepts from the chapter in action. They are short enough (10–12 minutes) to allow the majority of class time for discussion.

Videodiscs

A new addition to the supplements package, videodiscs offer an easy way to access video and other illustrative materials. The videodiscs include video segments, charts, graphs, and interactive exercises.

Overhead Transparency Acetates

Two hundred color acetates are offered to augment the concepts presented in the text. These acetates enable you to illustrate your lectures with colorful visual aids. Suggested comments for each acetate can be found on the acetate divider sheets and in the Instructor's Manual.

Transparency Masters

In addition to the acetates, every chart, graph, and table in the text is reproduced as a transparency master for your easy use in the classroom.

McNick Plus: An Interactive Computer Simulation and Tutorial

McNick Plus is both a tutorial and a simulation computer program. The student goes through the process of starting and managing a canoe company. Decisions must be made about the form of the company—sole proprietorship, partnership, or corporation. Economic decisions such as competitor analysis and pricing are made. Students are given feedback not only regarding the accuracy of their

answers but also regarding the justification of why their responses are correct or incorrect. They receive additional guidance and are allowed to answer again. If they still have an incorrect answer, they are given the correct answer and told where to look for further explanation in the text. It is a fun exercise and a great learning experience.

Business Forms

Students are often not prepared for the variety of forms they will have to fill out for job applications and then on the job. The updated and more readable business forms supplied with the Integrated Teaching and Testing System provide you with the means to expose students to such forms in school. You can pick and choose which forms to use, but we have tried to make the package as comprehensive as possible. Bruce H. Cudney of Middlesex Community College in Lowell, Massachusetts, prepared these forms.

Stock Market Project

The stock market project was a success in the classroom. Nonetheless, students recommended certain changes to make the project more useful and practical. For example, we added more material on bonds because bonds are an attractive investment alternative when the stock market seems too risky. Joyce Lockman at Jackson Community College in Michigan prepared this project.

We continue to strive to provide the strongest supplements package to help instructors support the text in the classroom.

ACKNOWLEDGMENTS



The strength of any text comes from the reviewers. If they are willing to analyze and criticize openly and freely, the authors are able to respond with better material. We were blessed with reviewers who are serious about the course and eager to have this book serve their needs as much as possible. Their names are listed at the end of this preface, but we want to thank them one more time for their dedication and assistance. We hope that their effort will be rewarded when they use the materials in their classrooms.

We were also blessed with a dynamic editorial team. Joanne Dorff served as developmental editor during the early phase of the project and gave us invaluable suggestions and assistance in polishing the text. She did so well we lost her to a promotion. Libby Rubenstein stepped in as developmental editor during the hectic final phase of the project and did an excellent job of pulling the pieces together. Craig Beytien stuck with us as sponsoring editor from planning through production. It was Craig's enthusiasm and passion for the project that kept us focused and on schedule. The excellent videos accompanying this text are the result of Craig's creativity and vision.

Michael Hruby came through for us again with an excellent selection of photos. As project editor, Jane Lightell made sure everyone got their jobs done on time. She did a superb job of making sure the text was smooth and readable.

Heidi Baughman was our talented designer who brightened and lightened the presentation of the text. Heidi did a great job of making sure the book looks as good as it reads.

We want to thank Ralston Purina Company for letting us rummage through their photo files and for answering our many questions about their company.

We want to extend a special thanks to the cadre of men and women that were especially important to the success of the previous editions: the Irwin sales and marketing staffs. We supplied the best product we could, but it was the service and the commitment of these people that got the word out across the country. The sales staff also listened to professors and students and passed important information on to us so that we could better meet our adopters' instructional needs. Thanks for helping to make us Number One!

We are especially grateful to the instructors who used the previous editions and made so many helpful suggestions. The improvements made in the third

edition are a direct result of your dedication and commitment to your students. We thank you all.

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