

Ronald J. Ebert
Ricky W. Griffin

BUSINESS ESSENTIALS

SECOND EDITION

BUSINESS ESSENTIALS

Second Edition

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University of Missouri-Columbia

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Texas A&M University



Prentice-Hall, Upper Saddle River, New Jersey 07458

FOR JACK AND FRAN—WHO HAVE SHOWN THAT
COMMITMENT, LOYALTY, AND SERVICE ARE
COMPANIONS OF LOVE AND HONOR

R.J.E.

FOR GLENN AND NORA LEE MAY—
MY "OTHER" PARENTS

R.W.G.

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■ PREFACE

We didn't foresee that developing a new product could be so exciting! Indeed, following its introduction just three years ago, the enthusiastic reception for *Business Essentials* among instructors and students has stimulated this second edition of the book. For this revision, as with the first edition, we have conceived *Business Essentials* as a new product with a unique purpose. The book reflects more than just changes that are occurring in the practice of business. It also reflects the changing needs of students and teachers of business.

■ MEETING THE CUSTOMER'S NEEDS

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

In creating this second edition of *Business Essentials*, we drew upon our experiences in developing the first edition and upon even earlier experiences in developing four successful editions of *Business*. Much of the core material in this new edition of *Business Essentials* is adapted from *Business*. It has been thoroughly updated, and the organization and format of the two books are completely different. We have retained or adapted the most valuable features of *Business*. In this revision, for example, we have retained the *Business Field Trip* feature that chronicles the activities and fortunes of Chaparral Steel Co., a world-class mini-mill located in Midlothian, Texas. This feature has proved popular because it provides a running account of how a particular company handles all facets of its operations. In all other major respects, however, *Business Essentials* is a different product intended for a specific audience. We encourage you to compare the books, side-by-side, for a convincing demonstration of their distinctly different orientations.

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

■ THE OBJECTIVES OF *BUSINESS ESSENTIALS*

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

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

We believe that we have met all of these objectives. The price of *Business Essentials* is lower than that of most major, high-quality books designed for the introductory course. The book offers significant coverage of business essentials, including both traditional topics and newer ideas. All of our examples are drawn from today's business world, and we added and updated information and examples right up to the moment we went to press in the spring of 1997.

■ THE THEMES OF *BUSINESS ESSENTIALS*

The 1990s have been a particularly exciting time in which to do business. But to be fully prepared for business in the third millennium, students need to be aware of the trends that will affect them as they start their careers. For this reason, we have concentrated on bringing several important themes to their attention.

- **The Growth of International Business.** Many businesspeople and observers of the business world see globalization of the economy as the great challenge in the coming century. To keep students aware of this challenge, we have based many of the examples, vignettes, boxes, and cases in this book on the experiences of global companies. Chapter 5, "Understanding the Global Context of Business," provides full coverage of this important topic.
- **The Significance of Small Business.** Because we recognize that most students will not go to work for large corporations, we have provided balanced coverage of both small and large companies throughout the text. Chapter 8, "Understanding Entrepreneurship and the Small Business," is comprehensive. In addition, examples throughout the book deal with small businesses, and many chapters contain sections on how specific practices and issues apply to the special concerns of small businesses.
- **The Growth of the Service Sector.** The 1990s have witnessed the continued growth of the service sector around the globe. We stress the importance of this sector by giving it equal billing with manufacturing in Chapter 11, "Managing Production and Improving Quality." Throughout, the book also provides prominent coverage of service businesses in the examples, cases, visuals, and end-of-chapter exercises.
- **The Need to Manage Information and Communications Technology.** In our information-based society, the people and organizations that learn how to obtain

and use information will be the ones that succeed. The explosive growth in information systems stems from the emergence of communications technologies such as multimedia communications systems. We cover this important topic in detail in Chapter 12, “Understanding Accounting and Information Systems,” where the discussion has been completely reworked for accuracy and currency.

- **The Role of Ethics and Social Responsibility.** Because business ethics and social responsibility have been generating much discussion in recent years, we devote a full chapter to them (Chapter 4, “Conducting Business Ethically and Responsibly”). And we treat issues of business ethics and social responsibility in our examples, cases, and other features.
- **The Quality Imperative.** Quality improvement continues to be of special interest as we approach the year 2000. Its coverage in Chapter 11, “Managing Production and Improving Quality,” was initiated in response to requests and suggestions of instructors. We also present quality considerations where they relate to other materials throughout the book.
- **The Importance of Career Preparation.** Most business students are naturally quite concerned about their careers. In response to these concerns, we have developed a special appendix, “Business Careers and the Job Search,” which has been significantly revised and updated from the first edition. Sections on employment trends, guidelines for preparing cover letters and résumés and attending job interviews, and methods for assessing job offers provide practical guidance for seeking employment and understanding the process.

■ FEATURES OF *BUSINESS ESSENTIALS*

A textbook must be packaged effectively and engagingly if it is to accomplish its objectives. We have designed a number of devices to make this book as user-friendly as possible.

- Every chapter begins with the first part of a **two-part case** that introduces a current real-world business situation by engaging student interest in the content and issues that follow in the chapter. Next comes a list of **learning objectives** for the chapter—a simple blueprint to alert students to the key subjects of study in the chapter.
- Within each chapter are **figures, tables, and photographs** to illustrate a point or convey a message. The selective inclusion of these visuals increases the reader’s involvement in the text. All photos are inspired by the text material; captions expand upon the text content.
- Each chapter includes two **thematic boxes** designed to provide additional perspectives on the material. Various topics include reports on high-interest topics, analyses of newly emerging problems, and examinations of controversial issues in today’s business environment. In one chapter of each part, one of the two boxes is devoted to our ***Business Field Trip*** to Chaparral Steel, introducing and describing in detail the various facets of Chaparral’s operations.
- To emphasize fundamental concepts, each **key term** is printed in boldface in the text and defined in the margin of the page where it is introduced. A comprehensive **glossary** at the end of the book provides readily accessible definitions as well as a reference to the text page where the word first occurs.
- Selected **cartoons** and **quotation callouts** are used occasionally to stimulate interest and enhance understanding of certain key points.

- At the conclusion of each chapter, we wrap up the **two-part case** with which we opened the chapter. Here we incorporate questions for discussion so that students can analyze the case, either on their own or in class as a group activity.
- Several other useful features are found toward the end of each chapter. A concise *Summary of Learning Objectives* is followed by pedagogical features that both review what's been learned and ask students to apply what they've learned. *Study Questions and Exercises* are divided into three categories: **review** (which tests recall of material), **analysis** (which tests understanding), and **application exercises** (which ask students to apply concepts to basic problems).
- *Building Your Business Skills* exercises give students an opportunity to apply both their knowledge and their critical-thinking skills to extended problems drawn from a wide range of realistic business experiences. Each exercise begins with a list of specific goals. A business situation is then described, and a step-by-step method for proceeding is outlined. Follow-up questions help students focus on the topic at hand.

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

- The growing prominence of the Internet as an information medium has stimulated the introduction of a new feature—*Exploring the Net*—at the end of each chapter. Students are directed toward Internet information sources and hands-on network activities that enhance and reinforce understanding of important topics in each chapter. As in *Building Your Business Skills*, the *Exploring the Net* exercises are specifically designed to foster in-depth involvement and problem solving. The format is hands-on, and activities are designed to accommodate both out-of-class preparation and in-class discussion.

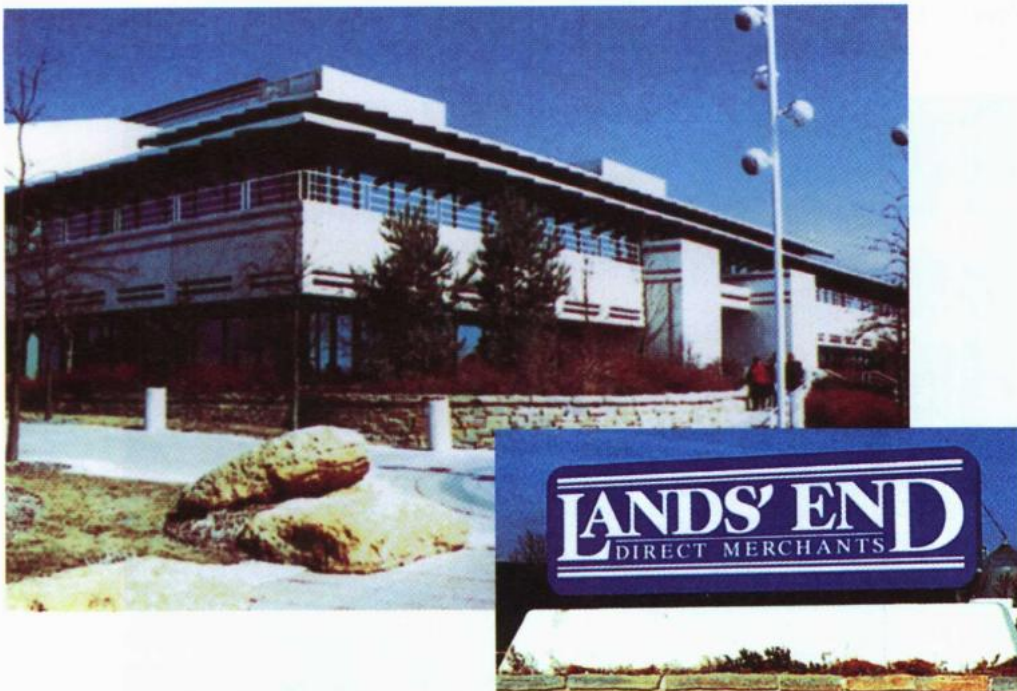
Finally, although we waited until the last possible minute to finalize the installments in this feature, we understand that users will undoubtedly encounter problems in accessing the same home pages and subdirectories that we used in creating these exercises. The reason will almost always be the same: a content provider has exercised his or her option to make changes in material without incurring the costs of reworking printed material. Change and flexibility, in other words, are integral features of the Internet, and so we urge everyone to be flexible and creative. There are numerous sources for most types of information, and both we and our colleagues have found that when faced with glitches, determined students not only find what they want but gain valuable experience in working with search engines. We are convinced that inventive students will not only locate alternative solutions to most exercise problems but will gain in enthusiasm in the process.

- Each of the book's seven parts concludes with two **video exercises**. These exercises are designed to cover a range of issues raised in the part as a whole and are drawn from two different resources:

- **Video Exercises 1.1 through 7.1** are coordinated with video segments gleaned from the on-air files of ABC News. These exercises provide a glimpse into those occasions when business and business-related activities are literally newsworthy.
- The segments in **Video Exercises 1.2 through 6.2** were produced specifically for Prentice Hall. Each 8- to 10-minute segment focuses on a relevant aspect of operations at Lands' End Inc., a major catalog retailer located in Dodgeville, Wisconsin. ▼ The purpose of these videos, which were shot on location and include interviews with managers and employees at Lands' End, is to anchor exercises focusing on the operations of a successful American company that deals with both goods and services on a global scale. Both authors and publisher wish to thank Coordinator of Public Relations Lisa Mullens and the other individuals at Lands' End who extended courtesy, cooperation, and resources in helping to create the *On Location* video exercises.

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

- *Learning Objectives* tell students what information to look for and what concepts to focus on as they watch the video
- *Background Information* provides context and supplements facts where needed
- A description of *The Video* previews the content of the segment
- *Discussion Questions* help students organize their thoughts on the material shown
- *Follow-Up Assignments* furnish an opportunity for further study about the video topic
- Where applicable, a section designed *For Further Exploration* encourages supplemental activities, many of which are geared to further research on the Internet



In 1981, Lands' End coined the term “direct merchant” to describe its approach to the retailing business. Since 1994, Lands' End has been the biggest specialty-catalog company in the United States, with more than 8 million customers in 75 countries. “One thing we have learned over the years,” says Managing Director Phil Young, “is that change is constant.” Lands' End is the subject of the On Location video exercises integrated into this edition of Business Essentials.

■ THE BUSINESS FIELD TRIP

Finally, we would like to return briefly to the feature that we have called the *Business Field Trip*. Accompanied by Senior Acquisitions Editor Don Hull, the authors journeyed to Midlothian, Texas, for guided tours, education, and interviews with the top managers of Chaparral Steel Co. The seven installments in the *Business Field Trip* integrated in this edition were compiled from the tapes, notes, and photos that we brought back, as well as from follow-up interviews. These elements appear in the second edition of *Business Essentials* as follows:

- PART 1/CHAPTER 1: “A Business Field Trip to Chaparral Steel”
- PART 2/CHAPTER 5: “International Markets Are Our Elastic Band”
- PART 3/CHAPTER 7: “You Have to Encourage Creativity Just to Stay in Place”
- PART 4/CHAPTER 10: “We Want Employees to Think Like Owners”
- PART 5/CHAPTER 11: “Keep the Mill Running or Lose \$10,000 an Hour”
- PART 5/CHAPTER 12: “Who Needs Paper Anyway?”
- PART 6/CHAPTER 14: “Our Customers Know Us and We Know Them”

Chaparral has also provided a video to introduce its operations and its employees. That video is the “text” for Video Exercise 1.1, “Best Practices at Chaparral Steel: ‘If It Ain’t Broke, We Break It,’” immediately following Chapter 2.

Why Chaparral Steel? Chaparral Steel is a medium-sized company that has found new ways of doing business in an old industry—an industry in which some traditional giants have struggled or declined in productivity. We believe that our material on Chaparral provides a fully integrated—and highly detailed—approach to understanding the realities of business in today’s world. ♣

■ SUPPLEMENTS

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

The landscape of the U.S. steel industry has changed dramatically since Chaparral Steel was incorporated as a so-called “mini-mill” in 1973. CEO Gordon E. Forward emphasizes that Chaparral has thrived by nurturing a corporate culture which reflects the needs of a changing industry in the last quarter of the 20th century. The key, he says, is “reinvesting in our people.”



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

- *Instructor's Manual*
- *Study Guide*
- Test Item File
- *Prentice Hall Custom Test*
- Powerpoint Transparencies
- Color Transparencies
- Prentice Hall/ABC News and Prentice Hall *On Location* Video Libraries
- Stock Market and Investment Practice Set
- *The Prentice Hall Career Guide*
- *Beginning Your Career Search*
- Prentice Hall/*New York Times* "Themes of the Times" for Business
- *Threshold Competitor: A Management Simulation*
- PHLIP: Prentice Hall's excellent Website
- *Enterprise: The CD-ROM for Business*
- *The Business Student Writer's Manual*

Further, we would like to highlight the following elements in the new package for the second edition of *Business Essentials*:

- ***Prentice Hall Custom Test*** (Windows version) is based on the number-one best-selling test-generating software program developed by Engineering Software Associates. This state-of-the-art test-creation program is not only suitable for established courses but is customizable according to individual needs. It is user-friendly, and this powerful program permits instructors to originate error-free tailor-made tests quickly and easily. Exams can be administered either on-line or traditionally, and *Custom Test* also tracks students' results and analyzes the success of specific tests.
- ***Threshold Competitor: A Management Simulation*** (Second Edition) is the only Windows-based introduction to business simulation currently available. Using *Threshold*, students work in groups to manage small manufacturing companies competing in the same marketplace. They decide on company missions, goals, policies, and strategies in areas ranging from marketing to finance and manufacturing. They practice skills in planning, organizing, directing, and controlling and get responses to both questions and decisions.
- **PHLIP Website** is a Web-based learning environment that contains numerous links to discipline-specific Websites. In addition to download areas and bulletin board capacity, PHLIP features current events articles that are updated about every two weeks and a faculty support section that provides instructors with access to textual and media material in the Prentice Hall Business Publishing archive. The purpose of PHLIP is to furnish up-to-date classroom support through state-of-the-art technology and resources. Instructors and students can access PHLIP from the PH Business Publishing home page at

http://www.prenhall.com/ph_business

- ***Enterprise: The CD-ROM for Business*** is an innovative encyclopedia that allows students to study material by focusing on selected topics rather than by re-

tracing their steps through fixed, preexisting chapters. The encyclopedia format (which is constructed from the text and features of the fourth edition of *Business*) permits students to construct their own courses of study with each session, interacting with the text and an array of audio and visual features not only to strengthen the conceptual connections that they need to understand for class but also to explore areas of personal interest. The special capabilities of the CD-ROM format make interactive study both challenging and speedy.

- ***Beginning Your Career Search***, prepared by James S. O'Rourke, IV, Director, Fanning Center for Business Communication at the University of Notre Dame, is a concise book that discusses all of the essentials for career planning. Chapters cover résumé preparation, introductory and follow-up letters, researching companies, interviews, handling job offers, and sample letters.
- ***The Business Student Writer's Manual***, by Tom Bergman, Greg Scott, and Steve Garrison, all of the University of Central Oklahoma, is a separate book from Prentice Hall that teaches writing skills in the context of regular classes.

■ ACKNOWLEDGEMENTS

Although only two names appear on the cover of this book, we could never have completed it without the participation of many fine individuals. First, we would like to thank the professionals who took time from their busy schedules to review materials for us:

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Authors, of course, typically get the credit when a book is successful, but the success of this book must be shared with an outstanding group of people at Prentice Hall, where a superb team of professionals made this book a pleasure to write. Our editor, Don Hull, initiated this project and has contributed to the package in more ways than we can list. We are engaged in ongoing discussions with Don about the best possible positioning of *Business* and *Business Essentials* and their future in both traditional and electronic formats. Lyn Camire and Rachel Stadden of Monotype Editorial Services oversaw the production of the text, which was beautifully designed by Lorraine Castellano. Assistant Editor John Larkin managed the development of all the supplements. Melinda Reo and Melinda Alexander handled photo research. Marketing Manager John Chillingworth made numerous contributions to the product itself and has since been tireless in getting out the message about the result. Ron Librach, our development editor, inspired the overall tone for the revision, pored over the manuscript at every step of the process, provided truly innovative design ideas, and continually encouraged us to add value here, to update there, to clarify the discussion, and to meet our deadlines.

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Our colleagues at the University of Missouri and Texas A&M University also deserve recognition. We both have the good fortune to be a part of a community of scholars who enrich our lives and challenge our ideas. Without their intellectual stimulation and support, our work would suffer greatly.

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■ ABOUT THE AUTHORS

Ronald J. Ebert is Professor of Management at the University of Missouri–Columbia. He received his B.S. in Industrial Engineering from Ohio State University, his M.B.A. from the University of Dayton, and his D.B.A. from Indiana University, where he was a U.S. Steel Fellow. A member of and an active participant in the Academy of Management, the Institute of Management Sciences, the American Production and Inventory Control Society, and the Operations Management Association, Dr. Ebert has also served as the editor of the *Journal of Operations Management* and as Chair of the Production and Operations Management Division of the Academy of Management. In addition to *Business*, he is the co-author of three books: *Organizational Decision Processes*, *Production and Operations Management* (published in English, Spanish, and Chinese), and *Management*.

Dr. Ebert has held engineering and supervisory positions in quality management with the Frigidaire Division of General Motors Corporation. He has also done TQM and operations strategy consulting for the National Science Foundation, the United States Savings and Loan League, Kraft Foods, Oscar Mayer, Sola Optical USA, Inc., the City of Columbia, and the American Public Power Association. His research interests include manufacturing policy and strategy, engineering design processes in product development, statistical quality control, and subjective managerial judgments in strategy formulation.

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

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

Dr. Griffin currently serves as the Director of the Center for Human Resource Management at Texas A&M. In addition to *Business*, he is the author or co-author of five books and more than 40 journal articles and book chapters.

UNDERSTANDING THE U.S. BUSINESS SYSTEM

Tired of Mickey Mouse Vacations?

TRY DISNEY'S VERSION OF CHINESE COOKING, SEAWEED FACIALS, AND SPIRITUAL INQUIRY

There's no getting around it: the baby boom generation is aging. The oldest of the 76 million baby boomers turned 50 in 1996, and in the next decade, the number of Americans over 50 will increase by 50 percent, to nearly 38 million. Most are so-called "empty nesters"—couples whose children have left home. Many thrive on personal and even physical challenge, but—perhaps predictably—most have absolutely no interest in taking another Disney World vacation. To borrow an expression from Generation X, they've "been there, done that."

Creative minds at the Walt Disney Co. saw these demographic and mood shifts as a commercial challenge requiring a tailor-made solution: They had to find a way to attract 40- and 50-year-olds who were no longer as active or child-oriented as they once were and who wanted to return from their vacations with something more than a suntan. In other words, asks Orlando-based marketing researcher Peter Yesawich, "What do you do if you're 48 and your kids are grown up?"

Disney's answer is the Disney Institute, a 75-acre resort within a resort. Located at Orlando's Disney

"What do you do if you're 48 and your kids are grown up?"

—Peter Yesawich

Orlando-based marketing researcher

World, the resort allows guests to try their hands at bird watching, cartoon animation, rock climbing, gourmet cooking, spiritual inquiry, and more. This \$35 million solution—billed by Disney as "smart fun"—is pretty much like a summer camp for adults. Described in the official guide as "a unique resort with 80 different programs to expand your mind and challenge your body," the Disney Institute required that Disney build the equivalent of a new business from scratch.

The vision for the Disney Institute began to take shape when Disney CEO Michael Eisner visited the Chautauqua Institution, an adult-learning community located in upstate New York that holds classes on politics, philosophy, and the performing arts. Eisner's 1985 visit convinced him that Disney could create a similar

environment "to enhance and improve quality of life in the Disney fashion." But unlike Chautauqua, Disney's version would be designed for mainstream Americans. Marketing research revealed that this type of vacation alternative was particularly attractive to baby boomers. It also showed that baby boomers had money to spend and the willingness to spend it on themselves: according to government data, adults between 45 and 54 years of age—Disney's target market—have higher incomes than any other U.S. age group.

Eleven years after Eisner's visit to Chautauqua, the Disney Institute opened its doors. Not surprisingly, visitors found elements of the Disney they knew, including perky, uniformed staff and immaculate grounds. Missing, however, were Goofy, Mickey, Donald, and Pluto. Gone, too, were endless lines for rides and stores filled with stuffed animals. In their place were feel-good classes, like the one on "Culinary Technique" taken by Greg Dawson, a columnist for the *Orlando Sentinel*. Dawson described his instructors as "two Disney chefs with comedy-club ambitions" who advised students to "never cook bacon in your bathing suit." The In-

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