

BUSINESS

ITS NATURE AND ENVIRONMENT

AN INTRODUCTION

STEADE • LOWRY • GLOS



TENTH EDITION

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Preface

The number “10” has taken on a new meaning in recent times. It is now seen as a measure of perfection on a scale of 10—a point that few people or objects can hope to reach. In a sense, the same can be said for the 10th edition of a textbook. Few books survive to reach this point, much less still enjoy wide acceptance.

So, we are pleased to bring you this 10th edition of a long-standing book that often has been called the standard against which other introduction to business texts are compared. Although this book has been widely imitated over the years, its popularity continues to hold. We feel this is because the text carefully balances enduring topics with the coverage of new topics that will remain current throughout the entire edition. For example, some current business topics in this edition include R&D limited partnerships, intuitive decision making, the middle-management bulge, job burnout and mid-life career crises, equity and comparable worth in wage and salary administration, give-backs and labor-management concessionary bargaining, robotics, research focus groups, personal computers, computer security, government regulation and deregulation, and electronic funds transfer systems, to name a few.

As for the organization of the material in this textbook, the seven parts have been carefully developed so that they reflect the close relationships between allied business activities. The three major functional areas of business—production, marketing, and finance—are significant parts of this text. Part I presents an overview of American business by examining our business system and its changing environment. Part II looks at the management and organization of human resources. Part III discusses the critical

areas of production and productivity. Part IV introduces the concepts of marketing to students. Part V reviews the principles of accounting and finance. Part VI covers the important topics of managerial information and controls with a discussion of the roles of computers, laws, ethics, and regulations in business. Part VII focuses on your career opportunities as either an employee in a large corporation or a proprietor of your own business.

The number of chapters in this edition has been reduced to 26 from the 27 in the last edition, and the content of many chapters has been extensively revised. Because of their significance in business today, chapters on American productivity, money and banking, and small business and franchising (formerly an appendix) have been added. The former chapter on multinational business has been broadened in scope, moved to the Marketing part, and renamed “International Business.” The chapter on business law now includes business ethics. As in the 9th edition, this edition concludes with a comprehensive case that permits a student to apply many of the principles which are discussed in the text.

Each chapter is introduced with a statement of learning objectives. These can be used by students as a guide for study and as a check on their understanding of the material covered. Also, at the opening of each chapter is a thought-provoking excerpt that describes an actual business situation related to the chapter content. At the end of each chapter, there are five questions that tie the material in the excerpt to the chapter’s topics. Each chapter concludes with a summary that identifies the most important points that have been covered. Thus, the format follows the sequence of telling you what you are to learn, providing the learning experience, and telling you what you have learned.

For many students, the language of business is difficult to remember and confusing to understand. In order to resolve these difficulties, at the end of each chapter is a list of important business terms that are used and defined within that chapter. These terms are readily identified by being printed in boldface type. Another feature is a comprehensive glossary that eliminates the need for a chapter-by-chapter search for the definition of a business term and provides a handy reference for students.

Also, in this edition you will note the abundant use of lively graphics and relevant illustrations that depict more clearly the role of business in our society.

Although the changes seem substantial, this revision has been made with one thought in mind—to improve our introductory business text. With the use of this text, an introduction to business course should be able to accomplish the following objectives:

1. For nonbusiness majors it is a very worthwhile general education course.
2. For business majors it gives an overview of all business activities, thus providing a valuable perspective for subsequent specialized business courses.
3. It is an excellent vocabulary builder for students.
4. Students gain an appreciation and understanding of our capitalistic business enterprise system.
5. It generates an awareness of the social responsiveness of business.
6. It gives students an insight into and practice in decision making.
7. For many, it provides an opportunity to evaluate and possibly choose a lifetime career.

The *Student Supplement* that accompanies the text has been revised and strengthened. It continues to serve three important purposes. First, for each chapter there is a series of review questions whose answers are in the back of the Supplement. Second, two short incidents for each chapter provoke discussion and often involve decision making. Third, in each chapter is a timely article that complements the text material. These three features make the Supplement a programmed learning aid, a case book, and a readings collection. Other supplementary publications are the *Instructor's Manual*, the printed objective tests, the key to the printed objective tests, and the transparencies prepared by Mr. Joel J. Lerner of Sullivan County Community College.

We would like to thank the many instructors who used the 9th edition and shared with us their thoughtful comments and suggestions for changes. We would also like to express our appreciation to a large number of businesses and business publications, who have graciously given us permission to use their various types of materials for illustrative purposes.

R.D.S.
J.R.L.
R.E.G.

Contents

PREFACE

xi

PART I • OVERVIEW OF AMERICAN BUSINESS

Chapter 1	The American Business Enterprise System	2
	<i>Elements of Our Business Enterprise System</i>	4
	<i>Economic Theories of Capitalism</i>	14
	<i>Other Economic Systems</i>	16
Chapter 2	Business in a Changing Environment	22
	<i>The Social Environment of Business: Basic American Values</i>	24
	<i>Social Values and Models of Business Responsibility</i>	26
	<i>The Physical Environment of Business</i>	30
	<i>Business Legitimacy and Corporate Accountability</i>	35

Chapter 3	Forms of Business Ownership	40
-----------	-----------------------------	----

Proprietorships	42
Partnerships	44
Corporations	48
Other Unincorporated Forms of Business Ownership	56
Other Incorporated Forms of Business Ownership	58

PART II • MANAGEMENT AND ORGANIZATION OF HUMAN RESOURCES

Chapter 4	Organizing for Management	66
-----------	---------------------------	----

The Meaning of Organization	68
The Organizing Process: Dividing and Coordinating	68
Departmentation of Operating Tasks	70
Establishment of Authority Relationships	74
Division of Managerial Work	76
The Process of Delegation	79
Organization Structure	80
Developing Effective Organizations	85

Chapter 5	The Manager's Job	88
-----------	-------------------	----

Managerial Levels, Skills, and Tools	90
Process of Decision Making	93
Managerial Functions	94
Managerial Leadership	101
Motivation	104
Communication	106
Management by Objectives	108
Organizational Complexity and Contingency Management	109

Chapter 6	Staffing the Organization	114
-----------	---------------------------	-----

Changes in the Staffing Function	116
Basic Steps in Staffing	117
Discrimination in Employment	128

Chapter 7	Compensation for Human Resources	138
	Base Pay 140	
	Wage Incentives 147	
	Fringe Benefits 151	
Chapter 8	Labor-Management Relations	160
	The Emergence and Growth of Organized Labor 162	
	Labor Goals and Bargaining 165	
	Bargaining Tactics and Tools 169	
	Labor Legislation 173	
	Current Labor Issues and Trends 178	
 PART III • PRODUCTION AND PRODUCTIVITY		
Chapter 9	American Productivity	188
	Why Productivity Is Important 190	
	The Measures of Productivity 191	
	Our Declining Productivity 193	
	Steps to Improve Our Productivity 198	
Chapter 10	Production and Manufacturing Systems	210
	Basic Factors in Manufacturing Systems 212	
	Mass Production and the Assembly Line 216	
	The On-Going Production Function 216	
	Toward the Automated Factory 221	
Chapter 11	Materials Management	230
	The Evolution of Materials Management 232	
	Nature and Functions of Purchasing 234	
	Distribution Management 241	

PART IV • MARKETING

Chapter 12	Marketing Management	260
	Marketing and Its Importance	262
	Marketing as a Productive System	264
	Marketing Organization Structure	264
	Marketing Functions	267
	Marketing Mix	267
	Uncontrollable Factors in the Marketing Environment	272
	Consumer Behavior	277
	Marketing Research	280
Chapter 13	Products and Their Distribution	286
	Types of Goods	288
	Product Policies	290
	Distribution Policies	295
	Wholesaling	299
	Retailing	302
Chapter 14	Personal Selling and Advertising	312
	Personal Selling	314
	Advertising	320
Chapter 15	Prices and Pricing Policies	342
	Pricing Objectives	344
	Approaches in Determining Prices	344
	Pricing Policies	352
	Price Legislation	359
	Pricing Theories	360
	Price Indexes and Trends	362
Chapter 16	International Business	368
	Why Nations Trade	370
	Conducting World Trade	375
	Promoting World Trade	381
	Protectionism and Economic Integration	385
	International Payments and Balance of Trade	390
	Multinational Corporations	391

PART V • ACCOUNTING AND FINANCE

Chapter 17	Accounting and Financial Statements	400
	Types of Accountants	403
	Basic Steps in Accounting Procedures	404
	Financial Statements	407
	Interpretation of Financial Statements	417
	Audits	422
	Budgets	423
	Standardization and Regulation	425
Chapter 18	Long- and Short-Term Financing	432
	Long-Term Financing	434
	Short-Term Financing	449
Chapter 19	Security and Commodity Exchanges	462
	Organized Security Exchanges	464
	Over-the-Counter Markets	477
	Development of a National Market System	478
	Option Markets	479
	Commodity Exchanges	480
Chapter 20	Money and Banking	488
	Basic Aspects of Money	490
	Our Banking System	492
	The Federal Reserve System	498
	International Monetary Operations	503
	Electronic Funds Transfer Systems	506
Chapter 21	Risk Management and Insurance	510
	Business Risks	513
	The Insurance Business	516
	Health Insurance	518
	Property and Liability Insurance	520
	Life Insurance	529

PART VI • INFORMATION MANAGEMENT AND CONTROLS

Chapter 22	Business Information and the Computer	540
	<i>Scope of Data Processing</i>	543
	<i>Analog and Digital Computers</i>	544
	<i>Components of a Computer System</i>	545
	<i>Computer Hardware</i>	549
	<i>Computer Software</i>	555
	<i>Applications of Electronic Data Processing</i>	557
	<i>Social Impact of the Computer</i>	562
	<i>Management Information Systems</i>	564
Chapter 23	Laws and Ethics for Business	572
	<i>Distinctions Between Torts and Crimes</i>	574
	<i>Our Legal and Court Systems</i>	575
	<i>Nature and Scope of Business Law</i>	577
	<i>Business Ethics</i>	584
Chapter 24	Regulation of Business	592
	<i>Competitive Businesses and Approved Monopolies</i>	595
	<i>Regulation of Competitive Businesses</i>	595
	<i>Regulation of Approved Monopolies</i>	604
	<i>Principles of Taxation</i>	606
	<i>Variation in State and Local Taxes</i>	608
	<i>Federal Taxes</i>	613

PART VII • BUSINESS AND YOU

Chapter 25	Business Career Opportunities	624
	<i>Factors to Consider in Career Planning</i>	626
	<i>Aids to Occupational Selection</i>	629
	<i>Areas of Employment Opportunities</i>	632
	<i>Planning a Job Campaign</i>	639

Chapter 26 Small Business and Franchising 652

- Importance of Small Business 654*
- Factors Necessary for New-Business Success 654*
- Distinctions Between Small and Large Businesses 657*
- The Five P's of Entrepreneurship 665*
- Choice of Business Ownership Form 666*
- Small Business Administration Services 667*
- Franchising 670*

COMPREHENSIVE CASE • PAWS, INC.—THE TALE OF GARFIELD 687

- Starting a New Comic Strip 689*
- Creating GARFIELD 689*
- The Advantages of a Licensing Program 690*
- Building the Foundation of a Licensing Program 691*
- Developing Licensing Programs for GARFIELD Products 692*
- Keeping GARFIELD Purring 695*

GLOSSARY 699

INDEX 713

I. Overview of American Business

- Chapter 1. The American Business Enterprise System*
2. Business in a Changing Environment
3. Forms of Business Ownership



Photo courtesy of Haworth, Inc., Holland, MI.

Profits and Free Market in Communist Bulgaria?

Bulgaria, smallest of the East-bloc nations, has stolen a head start on its East European allies and adopted a far-reaching economic reform in which the market is to replace the classic form of communist plan almost entirely.

Amid East-bloc concern over impoverished Poland, Bulgaria's step was announced quietly a few days ago. It could prove the most notable development in the area in many years.

The report delivered by Grisha Filipov, who is chairman of the Council of Ministers and acknowledged to be second only to President Todor Zhikov in the Communist Party leadership, was published at the weekend.

The general tenor of the Filipov report was that the market is to replace the plan. "Market forces will decide relations between enterprise and enterprise and between enterprise and the center," he said.

The whole present process is being reversed, with responsibility from below—from enterprises, their work forces, agro-industrial complexes, and local government. Only overall guidance will be exercised at the top chairman level. As chairman Filipov outlined them, the main features are:

- A speeding up of the switch-over from extensive to intensive production and productivity, with establishment of direct market

links. This means abandoning the emphasis on mere production figures (the old bugbear of communist planning) and replacing it with efficiency and quality criteria.

- Market forces alone are to determine production and meet the needs of society.
- The role of central government and planning will be confined to ensuring economic "balance" and guiding the "general proportions" of the economy. Specific decisions and action are left to individual enterprises.
- Every economic unit will have to operate on the basis of cost-effectiveness in its use of labor and materials and be strictly self-supporting.
- Incentives for management and workers alike will depend on competitiveness, the quality of the final product, and its profitable marketing "inside and outside the country."

The new economic mechanism makes no direct reference to workers' councils as such. But it stresses the role of the "work team" in enterprise production and other planning.

Under the Bulgarian reform the state is the "owner of social property." The workers are its "keep."

SOURCE: Adapted from Eric Bourne, "Profits? Free Market? Can This Be Communist Bulgaria?" *The Christian Science Monitor* (January 20, 1982), pp. 1, 14. Used by permission of Eric Bourne.

1

The American Business Enterprise System

Objectives:

- Identify the three main elements that form our business enterprise system.
- Explain why business is a key social institution in the United States.
- Distinguish between industrial and commercial businesses.
- Identify and explain three basic freedoms in our capitalistic economic system.
- Explain the importance of capital and risk to capitalism.
- Explain three ways in which profit is crucial to our capitalist economic system.
- Explain the gainful relationship represented in the circular flow of economic activity.
- Distinguish between the classical (supply-side) and Keynesian (demand-management) economic theories of capitalism.
- Distinguish between the use of monetary policy and fiscal policy as economic policy tools.
- Distinguish among capitalist, socialist, and communist economic systems.

Over two hundred years ago Thomas Jefferson noted that agriculture, manufacturing, commerce, and navigation were the four “pillars of our prosperity.” To this we can add that individual enterprise, or initiative, is the foundation on which these pillars stand. In fact, it was largely enterprising individuals and organizations seeking private gain who spurred the founding of our colonies before the break with England.

So, our capitalistic business enterprise system has been a key force in the growth of our nation since its founding. Business is the activating element—the engine of growth and productivity—in this system. **Business** is defined as all the commercial

and industrial activities that provide goods and services to maintain and improve our quality of life. The purpose of this book is to explain how business combines human, material, technological, and financial resources for profit. This profit is achieved by anticipating and satisfying the needs and wants of people in our society and throughout the world.

ELEMENTS OF OUR BUSINESS ENTERPRISE SYSTEM

In our complex society today, someone must accept the challenge and risk to bring human resources, materials, and capital together before a single gallon of milk can be marketed or a single automobile produced. That job rests with the businessperson. The owner of a lumber mill has to process various types of lumber as efficiently as possible in the amounts and varieties needed. A trucker has to move goods quickly from places where they are not needed to where they are needed. The person who runs a retail store must make a variety of goods available at a price the consumer is willing to pay. These are only a few examples of the almost limitless business activities in our daily lives.

However, our business enterprise system is comprised of more than business firms and activities. It results from the combination of three major elements: business as a key social institution, constitutional democracy, and the American capitalistic economy. Figure 1-1 shows the relationship of these three elements. Each of these elements will be discussed in this chapter so that we can begin to understand the factors that help shape our enterprise system into a dynamic social and economic force.

Business: A Key Social Institution

Business is a major institution in our society because its values and consequences are accepted as an important and basic part of our lives. Business is also a social institution as it is comprised of human groups working toward goals that agree with the overall goals of society.

Structure of Business

Figure 1-2 shows that the institution of business is formed by industries and business firms. An industry is a distinct group of productive firms concerned with a particular business such as automobile manufacturing or providing entertainment. A business firm is a commercial or industrial enterprise owned and organized to buy, sell, manufacture, or provide products or services to society for a profit. This is a broad definition and includes all sizes and types of business firms.

Sizes and Types of Business Firms

American business is carried on by firms of various sizes. The definitions of small business are changed from time to time by the Small Business Administration (SBA)