

T H E
B U S I N E S S
E N V I R O N M E N T



SKINNER



IVANCEVICH

T H E
B U S I N E S S
E N V I R O N M E N T

Steven J. SKINNER

Rosenthal Professor of Marketing

School of Management

University of Kentucky

John M. IVANCEVICH

Cullen Professor of Organizational Behavior and Management

College of Business Administration

University of Houston



SOUTH-WESTERN College Publishing

An International Thomson Publishing Company

Acquisition Editor: Randy G. Haubner
Developmental Editor: Alice C. Denny
Production Editor: Sharon L. Smith
Production House: WordCrafters Editorial Services, Inc.
Cover Design: Tin Box Studio
Cover Illustration: © Linda Bleck/SIS
Internal Design: Joseph M. Devine
Photo Research: Feldman and Associates
Marketing Manager: Stephen E. Momper

Copyright © 1996
by South-Western College Publishing
Cincinnati, Ohio

ALL RIGHTS RESERVED

The text of this publication, or any part thereof, may not be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, storage in an information retrieval system, or otherwise, without the prior written permission of the publisher.

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

Printed in the United States of America

Library of Congress Cataloging-in-Publication Data
Skinner, Steven J.

The business environment / Steven J. Skinner, John M. Ivancevich.
p. cm.

Includes bibliographical references (p.) and indexes.

ISBN 0-538-84627-5

1. Industrial management. 2. Business. I. Ivancevich, John M. II. Title.

HD31.S5744 1995

658—dc20

95-12729

CIP

I Ⓢ P

International Thomson Publishing

South-Western College Publishing is an ITP Company. The ITP trademark is used under license.

P R E F A C E

Business as a field of interest and study has made a dramatic impact in higher educational institutions in the past two decades. In order to continue this growth more students need to be encouraged to consider a major in a business discipline or to take elective courses in the business school. Many four-year colleges now offer an introductory or survey of business course to students as an orientation for further business courses. *THE BUSINESS ENVIRONMENT* addresses the needs of these students.

The premise of this text is that the practice of business is exciting, challenging, and globally oriented. The excitement of starting your own business, investing in a company, or negotiating deals are part of the daily menu of how business is conducted in New York, Tokyo, Lima, Hong Kong, or Sydney. The challenges of learning about and conducting business are interesting and rewarding. As this book will clearly show, business transactions are sometimes simple and sometimes very complex. Commonly accepted business practices in one country are considered unethical or even illegal in another country. Business is not mysterious, but it is not always either black or white.

As we move toward the next century, the business world is becoming increasingly global. New markets are opening in Latin America, Eastern Europe, and the Pacific Rim. The global orientation of business is a part of every reader's daily life. Clothing, food, transportation, entertainment, electronics, and service industries are booming around the globe. Countries located thousands of miles from the United States are providing goods and services that have become household names. Although the United States is a powerful market economy, there are a growing number of countries that are competing head on with the United States for customers, market share, and resources.

The American economy is now dominated by service businesses, and *quality* is the initiative of many firms. Social responsibility and ethical practices are now important forces in the way business must be conducted. Diversity, total quality management (TQM), and environmental issues are highlighted in this text because they have become an important part of today's workplace. Demographic and lifestyle shifts are changing the way we shop, where we work, and how we live. Students who understand these changes will be more likely to succeed than those who do not. This is the business book that integrates these and many other current developments to help prepare students for tomorrow's business world. Current examples of practices in large, medium, and small organizations and how business issues impact people are used throughout each chapter to relate the text to the real world.



THE BUSINESS ENVIRONMENT USES AN INNOVATIVE MODULAR FORMAT

THE BUSINESS ENVIRONMENT is the first survey of business text published in both a full textbook and a modular format. The text is organized into eight modules that allow for ultimate flexibility in course content. Modules may be ordered through your bookstore in any combination and taught in your preferred sequence. The modules provide students with an integrated and practical approach to understanding current business practices. Every chapter fits logically into this integrated approach. Part 1 (**Module One**) provides an overview of the core of business—the business enterprise. It discusses the foundations of business; forms of business ownership; and small business, entrepreneurship, and franchising. Part 2 (**Module Two**) presents the business environment that surrounds the core, including the social, legal, and international environment.

Part 3 (**Module Three**) focuses on managing and organizing the business, and on the management of production and operations. Part 4 (**Module Four**) examines the management of human resources, as well as human relations and labor relations. Part 5 (**Module Five**) covers marketing strategy, including product, price, distribution, and promotion decisions. Part 6 (**Modules Six and Seven**) explores the financial management of business firms. Part 7 (**Module Eight**) is devoted to accounting and information systems.

There is also a **Business Plan Module** available for professors who wish to include preparing a business plan in their course work. It is also possible to order a package for your students that contains the chosen text modules and the academic version of the leading business plan software, *BizPlan Builder*. This package will be particularly useful for courses where there is strong interest in entrepreneurship and small business.

THE BUSINESS ENVIRONMENT DEVELOPS CRITICAL-THINKING SKILLS

Our textbook has several features that make it enjoyable to read and challenging to teach. The book is purposefully written to provoke critical thinking about business issues, practices, and policies. Students can use the learning tools and applications features to help them understand and use the material to critically analyze business thinking and practice.

Whenever possible, the students are asked to critically think and reflect. Instead of relying on rote memorization, we believe that critically analyzing, communicating, and reflecting are more important skills to sharpen. In each element used in the book—the chapter opener vignettes, the boxed features, and end-of-chapter cases and activities—the reader will be asked to form an opinion, to analyze, and to evaluate. Business transactions require that the manager, customer, or worker be able to communicate an opinion, analyze a situation, and evaluate an action. We believe that, by using *THE BUSINESS*

ENVIRONMENT, the critical thinking skills requirements will stretch the reader and require him or her to take and defend a position on some crucial business matters.

Critical thinking is also fostered by a comprehensive case that continues throughout the text. At the ends of Modules 1 through 5 and 7 there is a case involving Nike, Inc. The objective of the use of this integrative case is to illustrate to readers how business practices are linked and how each influences the other. The Nike case integrates each of the modules and main business functions covered in the book.

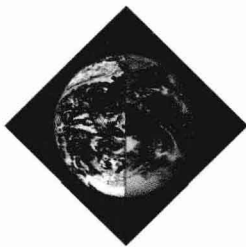
FEATURES INCLUDED IN *THE BUSINESS ENVIRONMENT*

Readers can use the following learning tools to help them understand and retain the material in the text.

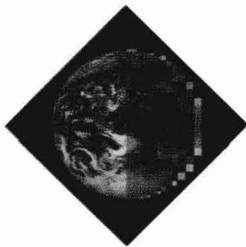
- *Learning Objectives.* Each chapter begins with several clear, attainable learning objectives; questions in the test bank are keyed to these objectives.
- *Margin Notes.* Definitions of key terms are placed in the margin next to where the terms are introduced to facilitate learning. The key terms are again listed at the end of the chapter to help students identify and review important concepts.
- *Summary of Learning Objectives.* Items in the chapter summary are tied to the corresponding chapter learning objective to provide a cohesive, integrated chapter review.
- *Questions for Discussion and Review.* Students can use these questions to evaluate their understanding of the chapter. Many of these questions also require and encourage critical thinking and analysis.
- *Glossary.* Key terms and their definitions are again presented in the comprehensive glossary. Please note that the glossary is included with any combination of modules.
- *Complete Indexes.* Topics throughout all modules can be easily located with the company, name, and subject indexes that accompany any module packages.

THE BUSINESS ENVIRONMENT also offers several application features that will help students to relate the text material to their own experiences and to apply the concepts in the text to the real world of business. Questions to encourage critical thinking are included in all of these features.

- *Opening Vignette.* Each chapter begins with a current news story that introduces students to the chapter's topics.
- *Today's Business World.* Each chapter features a story that focuses on recognizable firms and contemporary topics, extending the concepts discussed in the text.
- *Tomorrow's Business World.* A futuristic application or business trend is presented to help readers think about how business will be practiced in the near, and sometimes more distant, future.



TODAY'S
BUSINESS
WORLD



TOMORROW'S
BUSINESS
WORLD



- *Your Values and Attitudes.* Each chapter features a short self-assessment quiz that helps students evaluate their attitudes and values concerning business.
- *Cases.* Two relatively sophisticated cases at the end of each chapter help students put business concepts into practice. Many of the case questions require critical analysis.
- *Experiential Exercises and Application Exercises.* Each chapter contains two individual and/or group projects. Working alone or collaboratively with others on relevant topics will help each reader understand business decision making from a personal perspective.

THE BUSINESS ENVIRONMENT PROVIDES EXCELLENT INSTRUCTIONAL RESOURCES

- *Instructor's Manual.* Each chapter includes a chapter perspective; the learning objectives; an outstanding annotated lecture outline that includes all key terms and definitions as well as supplemental lecture materials; notes on the chapter's boxed materials; answers to the end-of-chapter discussion questions and cases; and a list of recommended readings.
- *Test Bank.* The Test Bank contains about 3,000 questions including multiple choice, true/false, essay, and mini-cases. Each question is categorized by level of learning and chapter learning objective. The Test Bank is also available in computerized form.
- *Acetates.* Many of the acetates are original materials prepared to augment the exhibits in the text. The acetates, as well as all the other exhibits from the text, are also available on PowerPoint disks. (The PowerPoint package contains a viewing disk so the screens may be used even if you do not have PowerPoint software.)
- *Videos.* The videos, taken from a variety of sources, will assist in bringing text concepts to life in the classroom. There is one video for each text chapter and a video instructor's guide that includes additional activities.
- *Videodisc Technology.* The videodisc contains video, definitions, transparencies, and illustrations. Its flexibility and ease of use make it a dynamic tool for instructors. A compatible CAV-type videodisc player is required to use this ancillary.

ACKNOWLEDGMENTS

Many reviewers made valuable comments during the development of this product. We appreciate the helpful suggestions of the following colleagues:

Eldon Bailey, McNeese State
University
Jeff Cannon, University of North
Carolina

Dawna Dewire, Babson College
Larry Halpern, Boston College
Ken Hoffman, Emporia State
University

Frederick J. Kelly, Seton Hall University	Herman Patterson, University of Memphis
Gary Latanich, Arkansas State University	Thomas W. Sharkey, University of Toledo
Jay Laughlin, Kansas State University	Kay Stewart, Kansas State University
Dave Lemak, Washington State University	James B. Thurman, George Washington University
Gordon Long, Georgia College	David Van Over, University of Idaho
John Loveland, New Mexico State University	R. Grady Wade, Georgia State University
Steven Burd, University of New Mexico	Wayne R. Wells, St. Cloud State University
Joseph A. Newman, Northern Illinois University	Judy Maese, New Mexico State University
John Palmer, James Madison University	

We are also grateful to teaching associates who contributed to the text and ancillary package. Special thanks go to Daniel M. Ivancevich of the University of Nevada at Las Vegas for his help in developing, critiquing, and revising the accounting and MIS chapters; to Theresa Bilitski of Old Dominion University for her work on revising the finance chapters; and to Tom Duenning of the University of Houston for preparing the Nike case. We also appreciate the work of David Reiter of the City Colleges of Chicago, who prepared the Instructor's Manual, and Elizabeth Elam of Saint Francis College, who prepared the Test Bank.

We have enjoyed our working relationship with the MMT Team at South-Western College Publishing. Deserving mention are Team Director Chris Sofranko, Acquisitions Editor Randy Haubner, Developmental Editor Alice Denny, Production Editor Sharon Smith, and Joe Devine and Jennifer Mayhall, who coordinated the design and photographs.

We also want to thank our immediate support team, which includes Ginger Roberts, Jacque Franco, and Ernestine Barnes. These team members again and again do so many positive things in word processing, database searches, contacting businesses, and finding materials that the authors can't imagine producing a book without their support.

Finally, our families—Moir, Aaron, and Carrie Skinner; and Dan, Jill, Dana, and Pegi Ivancevich—merit and receive our heartfelt appreciation for their support and willingness to share our lives with another textbook.

Steven J. Skinner

John M. Ivancevich

BRIEF CONTENTS

PART 1 ENTERPRISE

1 Business and Economics	2
2 Forms of Business Ownership	36
3 Entrepreneurship, Small Business, and Franchising	71

PART 2 THE BUSINESS ENVIRONMENT

4 Social Responsibility and Business Ethics	114
5 Business, Law, and Government	149
6 Global Business	175

PART 3 MANAGEMENT AND ORGANIZATION

7 Fundamentals of Management	210
8 Organizing the Business	241
9 Managing Production and Operations	273

PART 4 HUMAN RESOURCES

10 Human Relations and Motivation	322
11 Managing Human Resources	351
12 Labor-Management Relations	390

PART 5

MARKETING

13	Marketing Strategy	434
14	Product and Price	467
15	Distribution	505
16	Promotion	535

PART 6

FINANCIAL MANAGEMENT

17	Money and Banking	578
18	Financial Management	611
19	Investments	641
20	Risk Management and Insurance	672

PART 7

ACCOUNTING AND INFORMATION SYSTEMS

21	Accounting Practices and Principles	706
22	Management Information Systems	742
	Glossary	769
	Company Index	785
	Name Index	790
	Subject Index	793
	Photo Credits	807

CONTENTS

PART 1 ENTERPRISE

1 Business and Economics 2

Your Current Business IQ 4

Why Learn About Business? 6

Protecting and Improving Our Standard of Living 6
Coping With Change 7 Understanding Mutual Dependence 8
Realizing Global Opportunities 8 Preventing Misconceptions 8

People: The Key to Business 8

Owners 9 Managers 9 Employees 10 Consumers 10

Business Objectives 11

Survival, Growth, and Social Responsibility 11
Profit 11

Economics: The Foundation of Business 13

Resources 13 Goods and Services 13 Allocation 14

Economic Systems 15

Planned Economies: Socialism and Communism 15
Mixed Market Economy 17 Economic, Social, and Technological Trends 22
Demographic Trends 23 Diversity in the United States 23
Growth of the Marketplace 23 Growth of the Service Sector 25
The Explosion of Information Technology 25 Business in All Sizes 26
Environmental Responsibilities 26

The Themes of This Book 27

Business Ethics and Responsibility 27 Business Profit 28
Global Markets 28 Diversity 28 The Skill Mix 28

2 Forms of Business Ownership 36

What Type of Business Is Right for You? 38

Sole Proprietorships 39 Advantages of a Sole Proprietorship 40
Disadvantages of a Sole Proprietorship 41

Partnerships 43

Types of Partnerships 43 The Partnership Contract 46
Advantages of a Partnership 46 Disadvantages of a Partnership 48

Other Unincorporated Forms of Business 50

Syndicates 51 Business Trusts 51

Corporations 51

Forming a Corporation 52 Types of Corporations 53
Corporate Policymakers 53 Advantages of a Corporation 56
Disadvantages of a Corporation 58 Mergers and Acquisitions 59

Other Incorporated Forms of Business 61

S Corporations 61 Nonprofit Corporations 62 Professional Service Associations 63

3 Entrepreneurship, Small Business, and Franchising 71

Entrepreneurship 73

The Individual Entrepreneur 73 Corporate Entrepreneurs 76
Characteristics of Growth-Oriented Entrepreneurs 77
Risks of Entrepreneurship 78

Small Business 79

Characteristics 80 Advantages and Disadvantages 80
The Small Business Administration (SBA) 81 Small-Business Opportunities 83

Franchising 89

Franchising: A Brief History 89 The Franchising Agreement 91
Advantages of Owning a Franchise 93 Disadvantages of Owning a Franchise 95
Franchisor Disclosure 96 International Franchising 97

Comprehensive Case: Nike: The Story and the Spirit 107

PART 2 THE BUSINESS ENVIRONMENT

4 Social Responsibility and Business Ethics 114

Social Responsibility 116

Responsibility to Consumers 118

The Right to Safety 120 The Right to Be Informed 120
The Right to Choose 121 The Right to Be Heard 121

Responsibility to Employees 121

Safety in the Workplace 122 Equality in the Workplace 122
Sexual Harassment 123 Managing Cultural Diversity 124
Other Responsibilities to Employees 125

Responsibility to the Environment 125

Water Pollution 126 Air Pollution 126 Land Pollution 127
Green Marketing 129

Responsibility to Investors 130

Proper Management of Funds 130 Access to Information 131
Executive Compensation 131

Advancing Social Responsibility 133

Community Support 133 Self-Regulation 134 The Social Audit 134

Business Ethics 135

Factors Influencing Ethical Behavior 136 Encouraging Ethical Behavior 140

5 Business, Law, and Government 149

Introduction to Law 151

Sources of Law 152 The Court System 153

Laws Affecting Business 155

The Law of Torts 155 The Law of Contracts 158 The Law of Sales 159
The Law of Agency 159 The Law of Property 160 The Law of Bankruptcy 160
The Law of Negotiable Instruments 161

Government Regulation of Business 162

Sherman Antitrust Act 162 Clayton Act 163 Federal Trade Commission Act 164
Robinson-Patman Act 164 Celler-Kefauver Act 164 Antitrust Improvement Act 164

Deregulation 165

Government Taxation 167

Corporate Income Tax 167 Individual Income Tax 167 Other Taxes 168

6 Global Business 175

The Nature and Importance of the Global Economy 177

Defining International Business 178 Global Opportunities 180

Why Firms Conduct International Business 181

Basic Concepts of International Business 182

Exporting and Importing 182 Balance of Trade 182 Balance of Payments 183
Exchange Rates 183

Barriers to International Business 184

Cultural and Social Barriers 184 Political Barriers 185 Tariffs and Trade Restrictions 185

Regulation of International Business 186

Legislation 186 International Organizations 188

Approaches to International Business 191

Exporting 191 Licensing 192 Joint Ventures 193 Strategic Alliances 193
Trading Companies 193 Countertrading 194 Direct Ownership 194 Multinational Corporations 195

Adapting to Foreign Markets 195

Product 196 Price 196 Distribution 197 Promotion 197

Comprehensive Case: International Development or Exploitation? 205

PART 3 MANAGEMENT AND ORGANIZATION

7 Fundamentals of Management 210

What Is Management? 212

A Variety of Objectives 213

Organizational Objectives 214 Departmental Objectives 214 Subunit Objectives 214 Individual Objectives 214

Management Functions 216

Planning 216 Organizing 217 Staffing 217 Directing 217 Controlling 219

Levels of Management 221

Executive 222 Middle 223 First-Line 223

What Do Managers Do with Their Time? 224

Core Management Skills 227

Studies of Management Skills 227 Decision-Making/Problem-Solving Skills 228 Communication Skills 228 Interpersonal Skills 231 Objective/Goal-Setting Skills 232

8 Organizing the Business 241

Why Organize? 243

Organizing Fundamentals 244

Clear Objectives 245 Coordination 245 Formal and Informal Organizations 246 Organization Chart 246 Formal Authority 249 Centralization and Decentralization 250

Principles of Organizing 253

Division of Labor 253 Unity of Command 254 Scalar Principle 254 Span of Control 255

How to Organize a Business 256

Functional Structure 257 Product Structure 258 Ter-

ritorial Structure 259 Matrix Structure 260 Multiple Structures 262 Downsizing 264

9 Managing Production and Operations 273

What Are Production and Operations? 277

A Short History of Production and Operations Management 278

Early and Crucial Innovations 278 Industrialization and America's Postwar Supremacy 281 Consumerism and Planned Obsolescence 281 American Manufacturing Joins the Global Marketplace 281 Production and Operations Management in the Service Sector 284

What Does the Production and Operations Manager Do? 285

Organizing the Production Process 286 Planning Site Location and Layout 288 Managing Materials, Purchasing, and Inventory 291 Controlling Production: Scheduling 292

Using Technology 295

Computer-Aided Design, Engineering, and Manufacturing 295 Robotics 296 Flexible Manufacturing Systems 297

Improving Quality 297

Managing Quality Control 300 Quality Circles 302

Improving Productivity 303

Maintaining Safety: For Employees, Products, and the Environment 304

Employee and Product Safety 305 Globalization of Environmental Pollution 306

The Challenge for Production Managers 306

Comprehensive Case: Nike's Global Network of Shoemaking 315

PART 4 HUMAN RESOURCES**10 Human Relations and
Motivation 322**

Motivation and Performance 324

Human Resource Management and
Relations 325

The Hawthorne Studies 326

Motivation: What Is It? 327

Theories of Management and Needs 329

Maslow's Needs Hierarchy 329 McGregor's Theory X
and Theory Y 331 Ouchi's Theory Z 332 Herzberg's
Two-Factor Model of Motivation 333 Maslow and
Herzberg: A Comparison 334

Motivating Employees 335

Goal Setting 337 Job Enrichment 339 Quality of
Work Life 341 Behavior Modification 342

11 Managing Human Resources 351

The Work of HRM 354

Human Resource Planning, Recruitment,
and Selection 355

Planning 355 Recruitment 356 Selection 360 Deci-
sion to Hire 366

Training and Development 367

Orientation 367 Training 367 Management Develop-
ment 368 Performance Appraisals 370

Compensation and Benefits 372

Wages 372 Salaries 376 Benefits and Services 377

Workplace Safety 380

**12 Labor-Management
Relations 390**

A Brief History of the American
Labor Movement 392

Unionization Trends 396

Why Do People Join Unions? 400

The Structure and Management of Unions 402

Local Union Structure 402 National-Local Relation-
ship 403 Managing in the Union 403

Federal Regulation of Labor-Management
Relations 403

Early Labor Legislation: Pro-Labor 403 Postwar Labor
Laws: Restoring a Balance 405 The Issue of Job Secu-
rity 406 Recent Legislation 407

Organizing and Decertifying a Union 409

Collective Bargaining 410

The Result of Collective Bargaining:

The Contract 412

Discipline 413 Grievances 414 Strikes 415 National
Emergencies 419

Nonunion Organizations 419

Comprehensive Case: Athletes, Employees Are
Nike's Most Valuable Assets 428

PART 5 MARKETING

13 Marketing Strategy 434

An Overview of Marketing 436

What Is Marketing? 436 Marketing Adds Value 437
Marketing Affects Everyone 438

How Marketing Evolved 440

The Marketing Concept 441 Beyond the Marketing
Concept 443

Developing a Marketing Strategy 443

Selecting a Target Market 444 Global Marketing Strategies 449
Designing a Marketing Mix 449 The Marketing Environment and Marketing Strategy 450

Understanding Buyer Behavior 452

Consumer Buying Behavior 453 Organizational Buying Behavior 454

Marketing Research 456

The Need for Marketing Research 456 The Research Process 457

Marketing in the Future 459

14 Product and Price 467

What Are Products? 469

Consumer Products 470 Industrial Products 472 Classifying Services 472

Product Line and Product Mix 473

Managing the Product Mix 475

Developing New Products 475 The Product Life Cycle 479
Extending the Product Life Cycle 481 Deleting Products 482

Creating Product Identification 483

Branding 483 Packaging 486 Labeling 487

Pricing 488

Pricing Objectives 489

Market Share 489 Profit 490 Return on Investment 490
Status Quo 490

Factors in Pricing Decisions 490

Price and Nonprice Competition 491 Supply and Demand 491
Consumer Perceptions of Price 492

Pricing Methods 492

Cost-Oriented Pricing 493 Demand-Oriented Pricing 493
Competition-Oriented Pricing 495

Pricing Strategies 495

Pioneer Pricing 495 Psychological Pricing 496 Professional Pricing 497
Price Discounting 497

15 Distribution 505

Marketing Channels 507

Functions of Marketing Intermediaries 507 Types of Marketing Channels 508
Vertical Integration 509 Intensity of Market Coverage 510

Wholesaling 511

Services Wholesalers Perform 512 Types of Wholesalers 512

Retailing 515

Types of Retail Stores 516 Nonstore Retailing 518
Retail Planning 520

Physical Distribution 524

Transportation 524 Warehousing 526 Order Processing 527
Materials Handling 527 Inventory Management 527 Distributing Services 528

16 Promotion 535

The Role of Promotion 537

Promotional Objectives 538 The Promotion Mix 538

Advertising 540

Types of Advertising 540 Advertising Media 543 Developing Advertising Campaigns 550

Personal Selling 551

Types of Salespeople 552 Sales Positions in the Future 554
The Selling Process 555

Sales Promotion 557

Consumer Sales Promotion 557 Trade Sales Promotion 558

Publicity 560

Publicity Approaches 560 Using Publicity Effectively 561

Developing the Promotion Mix 562

Promotional Strategies 562 Product Characteristics 563

Comprehensive Case: Nike Marketing Links Products to Athletic Prowess 572**PART 6 FINANCIAL MANAGEMENT****17 Money and Banking 578****Money and Exchange Systems 580****Functions of Money 581****Characteristics of Money 582****The Supply of Money 584**

M1 585 M2 585 Credit Cards 585

Financial Institutions: Their Role in Business 586

Commercial Banks 586 Thrifts and Credit Unions 587 Nonbanking Financial Institutions 588

Government Involvement in Money and Banking 591

Insuring Bank Deposits 591 Bank Supervision 592 Deregulation of the Banking Industry 592 Federal Reserve System 593

The Future of Banking 598

Technological Impacts: Electronic Funds Transfer 598 Interstate Banking 599 World Banking Community 601

18 Financial Management 611**Defining Finance 613****Planning for Cash Flow 615**

Projecting Month-by-Month Outward Flow of Funds 616 Projecting Month-by-Month Flow of Funds into the Business 619 Comparing Monthly Inflows to Monthly Outflows 619

Generating Revenue from Excess Funds 619

Expansion 619 High-Liquidity Investments 620

Finding Efficient Sources of Funds 621

Short-Term Financing: Debt Capital 621 Long-Term Financing 625

Managing the Finances of the Firm 631

Managing Working Capital 631 Developing Capital Budgets 632 Developing Financial Controls 633

19 Investments 641**Use of Securities for Long-Term Funding 643**

Use of Bonds 643 Use of Stocks 644 Making a Stock or Bond Offering 645

Who Invests in the Securities Market? 646**Why Individuals Invest in Securities 647**

Growth 647 Income 647 Security 647 Liquidity 648 Tax Deferral or Avoidance 649

Choices for Investment 649

Stocks 649 Bonds 652 Certificates of Deposit 654 Mutual Funds 655 Commodities 656 Financial Futures 659

Where Investments Are Handled 659**The Investment Process 660**

Contacting a Broker 660 Ordering 661 Reading the Market Indicators 662

Regulation of Securities Markets and Transactions 663

20 Risk Management and Insurance 672

The Nature of Risk 674

Dealing with Risk 674

Managing Risk 675 Covering Risk 676

How Insurance Works 679

Insurance Sources 680

Public Sources of Insurance 680 Private Sources of Insurance 682

Types of Insurance Businesses Need 682

Property Insurance 682 Liability Insurance 684 Protection Against Income Losses 685 Employee Insurance Policies 687

**Comprehensive Case: Nike Uses Information
Technology to Work Smart 701**

PART 7 ACCOUNTING AND INFORMATION SYSTEMS

21 Accounting Practices and Principles 706

What Is Accounting? 708

Types of Accountants 709

Public Accountants 709 Private Accountants 711

The Accounting Cycle 711

The Accounting Equation 713

Double-Entry Bookkeeping 715

Financial Statements 717

Balance Sheet 718 Income Statement 721 Statement of Cash Flows 723

Analyzing Financial Statements 724

Ratio Analysis 724

22 Management Information Systems 742

The Age of Information 744

Introduction to Computers 745

The Evolution of Computers 745 Types of Computers 746 Computer Hardware 747 Computer Software 748

Computers and Business 751

Computer Capabilities 751 Business Applications 752

Management Information Systems 754

MIS Functions 755 Computer Networks 757 Decision Support Systems 758

**Trends in Computers and Management
Information Systems 758**

Glossary 769

Company Index 785

Name Index 790

Subject Index 793

Photo Credits 807