

O.C. Ferrell  
Geoffrey Hirt  
Linda Ferrell

# Business

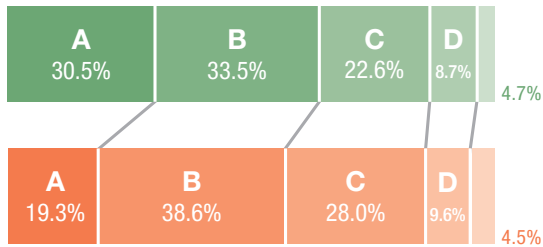
## A Changing World

tenth edition

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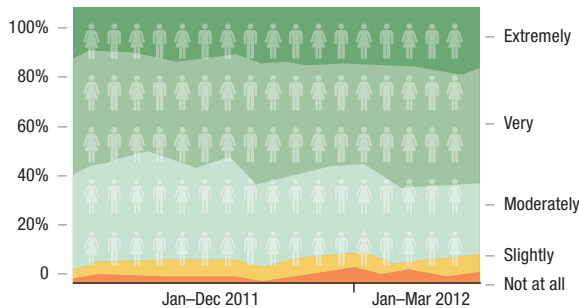
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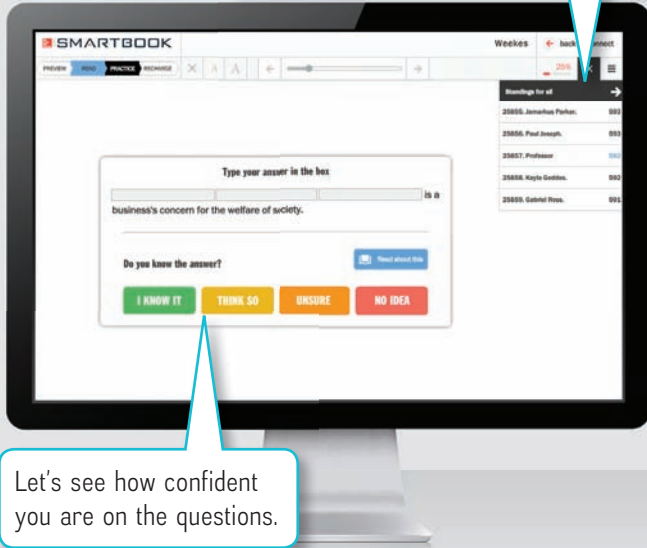
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# Business

○ A Changing World





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tenth edition

**O.C. Ferrell**

University of New Mexico

**Geoffrey A. Hirt**

DePaul University

**Linda Ferrell**

University of New Mexico

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Graw  
Hill**  
Education



BUSINESS: A CHANGING WORLD, TENTH EDITION

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# Dedication

**To James Ferrell**

**To Linda Hirt**

**To George Ferrell**



# Authors

## O.C. FERRELL



O.C. Ferrell is University Distinguished Professor of Marketing and Bill Daniels Professor of Business Ethics in the Anderson School of Management at the University of New Mexico. He served as

the Bill Daniels Distinguished Professor of Business Ethics at the University of Wyoming and the Chair of the Department of Marketing at Colorado State University. He also has held faculty positions at the University of Memphis, University of Tampa, Texas A&M University, Illinois State University, and Southern Illinois University, as well as visiting positions at Queen's University (Ontario, Canada), University of Michigan (Ann Arbor), University of Wisconsin (Madison), and University of Hannover (Germany). He has served as a faculty member for the Master's Degree Program in Marketing at Thammasat University (Bangkok, Thailand). Dr. Ferrell received his B.A. and M.B.A. from Florida State University and his Ph.D. from Louisiana State University. His teaching and research interests include business ethics, global business, and marketing.

Dr. Ferrell is widely recognized as a leading teacher and scholar in business. He has published more than 100 articles in leading journals. He has co-authored more than 20 books. In addition to *Business: A Changing World*, he has two other textbooks, *Marketing* and *Business Ethics: Ethical Decision Making and Cases*, that are market leaders in their respective areas. He also has co-authored other textbooks for marketing, management, business and society, and other business courses, as well as a trade book on business ethics. He chaired the American Marketing Association (AMA) ethics committee that developed its current code of ethics. He is past president of the Academic Council for the AMA. Currently he is Vice President of Publications for

the Academy of Marketing Science and is a Distinguished Fellow with AMS and is the AMS, Cutco-Vector Distinguished Marketing Educator.

Dr. Ferrell's major focus is teaching and developing teaching resources for students and faculty to better understand the increasing complex global business environment. He has taught the introduction to business course using this textbook. This gives him the opportunity to develop, improve, and test the book and ancillary materials on a firsthand basis. He has traveled extensively to work with students and understands the needs of instructors of introductory business courses. He lives in Albuquerque, New Mexico, and enjoys skiing, golf, and international travel.

## GEOFFREY A. HIRT



Geoffrey A. Hirt of DePaul University previously taught at Texas Christian University and Illinois State University where he was Chairman of the Department of Finance and Law. At DePaul, he was Chairman

of the Finance Department from 1987 to 1997 and held the title of Mesriow Financial Fellow. He developed the MBA program in Hong Kong and served as Director of International Initiatives for the College of Business, supervising overseas programs in Hong Kong, Prague, and Bahrain and was awarded the Spirit of St. Vincent DePaul award for his contributions to the university. Dr. Hirt directed the Chartered Financial Analysts (CFA) study program for the Investment Analysts Society of Chicago from 1987 to 2003. He has been a visiting professor at the University of Urbino in Italy, where he still maintains a relationship with the economics department. He received his Ph.D. in Finance from the University of Illinois at Champaign-Urbana, his M.B.A. at Miami University of Ohio, and his B.A. from Ohio Wesleyan University.

Dr. Hirt is currently on the Dean's Advisory Board and Executive Committee of DePaul's School of Music and is on the Board of the James Tyree Foundation. The Tyree Foundation funds innovative education programs in Chicago, and Dr. Hirt also serves on the Grant Committee. Dr. Hirt is past president and a current member of the Midwest Finance Association, a former editor of the *Journal of Financial Education*, and also a member of the Financial Management Association. He belongs to the Pacific Pension Institute, an organization of public pension funds, private equity firms, and international organizations such as the Asian Development Bank, the IMF, and the European Bank for Reconstruction and Development.

Dr. Hirt is widely known for his textbook *Foundations of Financial Management* published by McGraw-Hill/Irwin. This book in its fifteenth edition has been used in more than 31 countries and translated into more than 14 different languages. Additionally, Dr. Hirt is well known for his textbook, *Fundamentals of Investment Management*, also published by McGraw-Hill/Irwin and now in its tenth edition. Dr. Hirt enjoys golf, swimming, music, and traveling with his wife, who is a pianist and opera coach.

## LINDA FERRELL



Dr. Linda Ferrell is Professor of Marketing and Bill Daniels Professor of Business Ethics in the Anderson School of Management at the University of New Mexico. She completed her Ph.D. in Business Administration, with a concentration in management, at the University of Memphis. She has taught at the University of Tampa, Colorado State University,

University of Northern Colorado, University of Memphis, and the University of Wyoming. She also team teaches a class at Thammasat University in Bangkok, Thailand, as well as an online Business Ethics Certificate course through the University of New Mexico.

Her work experience as an account executive for McDonald's and Pizza Hut's advertising agencies supports her teaching of advertising, marketing management, marketing ethics, and marketing principles. She has published in the *Journal of Public Policy & Marketing*, *Journal of Business Research*, *Journal of the Academy of Marketing Science*, *Journal of Business Ethics*, *AMS Review*, *Journal of Academic Ethics*, *Journal of Marketing Education*, *Marketing Education Review*, *Journal of Teaching Business Ethics*, and *Case Research Journal*, and is co-author of *Business Ethics: Ethical Decision Making and Cases* (10th edition) and *Business and Society* (5th edition). She co-leads the Daniels Fund business ethics initiative at the University of New Mexico.

Dr. Ferrell is the President of the Academy of Marketing Science and a past president for the Marketing Management Association. She is a member of the college advisory board for Cutco Vector. She is on the NASBA Center for the Public Trust Board of Directors, University of Central Florida-Nicholson School of Communication Board of Visitors, University of Tampa-Sykes College of Business, Board of Fellows, and the Direct Selling Education Foundation Board and Executive Committee. She frequently speaks to organizations on "Teaching Business Ethics," including the Direct Selling Education Foundation's training programs, Ethics & Compliance Officer Association, NASBA Center for the Public Trust Ethical Leadership Conference, as well as others. She has served as an expert witness in cases related to advertising, business ethics, and consumer protection.

# Welcome

The tenth edition provides a complete and integrated overview of the world of business. It is important for students to understand how the functional areas of business have to be coordinated as changes in the economy, technology, global competition, and consumer decision making continue to evolve. All of these changes are presented in concepts that entry-level students can understand. Our book contains all of the essentials that most students should learn in a semester. *Business: A Changing World* has, since its inception, been a concise presentation of the essential material needed to teach introduction to business. From our experience in teaching the course, we know that the most effective way to engage a student is by making business exciting, relevant, and up to date. Our teachable, from-the-ground-up approach involves a variety of media, application exercises, and subject matter, including up-to-date content supplements, boxed examples, video cases, PowerPoints, and testing materials that work for entry-level business students. We have worked hard to make sure that the content of this edition is as up to date as possible in order to best reflect today's dynamic world of business.

## The Tenth Edition

The tenth edition represents a complete revision. This is because so many recent events and changes in the environment relate to the foundational concepts in business. This means that an Introduction to Business textbook has to provide adequate coverage of dynamic changes in the economy as they relate to business decisions. We have listened to your feedback and incorporated needed changes in content, boxes, cases, exercises, and other features.

This is our third edition with a chapter on digital marketing and social networking in business. Since launching this chapter in the eighth edition, this dynamic area continues to change the face of business. Entrepreneurs and small businesses have to be able to increase sales and reduce costs by using social networking to communicate and develop relationships with customers. Because this area is a moving target, we have made substantial changes to the tenth edition of Chapter 13, Digital Marketing and Social Networking. Digital marketing has helped many entrepreneurs launch successful businesses.

While the title of our book remains *Business: A Changing World*, we could have changed the title to *Business: In a Green World*. Throughout the book, we recognize the importance of sustainability and “green” business. By using the philosophy *reduce, reuse, and recycle*, we believe every business can be more profitable and contribute to a better world through green initiatives. There is a new “Going Green” box in each chapter that covers these environmental changes. Our “Entrepreneurship in Action” boxes also discuss many innovations and opportunities to use sustainability for business success.

We have been careful to continue our coverage of global business, ethics and social responsibility, and information technology as it relates to the foundations

important in an introduction to business course. Our co-author team has a diversity of expertise in these important areas. O.C. Ferrell and Linda Ferrell have been recognized as leaders in business ethics education, and their insights are reflected in every chapter and in the “Consider Ethics and Social Responsibility” boxes. In addition, they maintain a website, <http://danielsethics.mgt.unm.edu/>, that provides free resources such as PowerPoints and cases that can be used in the classroom. Geoff Hirt has a strong background in global business development, especially world financial markets and trade relationships.

The foundational areas of introduction to business, entrepreneurship, small business management, marketing, accounting, and finance have been completely revised. Examples have been provided to which students can easily relate. An understanding of core functional areas of business is presented so students get a holistic view of the world of business. Box examples related to “Responding to Business Challenges,” “Entrepreneurship in Action,” “Going Green,” and “Consider Ethics and Social Responsibility” help provide real-world examples in these areas.

Our goal is to make sure that the content and teaching package for this book are of the highest quality possible. We wish to seize this opportunity to gain your trust, and we appreciate any feedback to help us continually improve these materials. We hope that the real beneficiary of all of our work will be well-informed students who appreciate the role of business in society and take advantage of the opportunity to play a significant role in improving our world. As students understand how our free enterprise system operates and how we fit into the global competitive environment, they will develop the foundation for creating their own success and improving our quality of life.

**O.C. Ferrell**  
**Geoffrey A. Hirt**  
**Linda Ferrell**

# Built from the Ground Up to Be Exciting, Applicable, and Happening!

The best-selling integrated text and digital resource package on the market, *Business: A Changing World* was built from the ground up—that is, developed and written expressly for faculty and students who value a brief, flexible, and affordable resource that is exciting, applicable, and happening!

What sets this fastest growing learning program apart from the competition? An unrivaled mixture of exciting content and resources, application-focused text and activities, and fresh topics and examples that show students what is happening in the world of business today!

- **Built from the Ground Up** It's easy for students taking their first steps into business to become overwhelmed. Longer books try to solve this problem by chopping out examples or topics to make ad hoc shorter editions. *Business: A Changing World* carefully builds just the right mix of coverage and applications to give your students a firm grounding in business principles. Where other books have you sprinting through the semester to get everything in, Ferrell/Hirt/Ferrell allows you the breathing space to explore topics and incorporate other activities that are important to you and your students. The exceptional resources and the *Active Classroom Resource Manual* support you in this effort every step of the way.

 **Exciting**

It's exciting to see students succeed! It's exciting to see more As and Bs in a course without grade inflation. Ferrell/Hirt/Ferrell makes these results possible for your course with its integrated learning package that is proven effective, tailored to each individual student, and easy to use.

 **Applicable**

When students see how content applies to them, their life, their career, and the world around them, they are more engaged in the course. *Business: A Changing World* helps students maximize their learning efforts by setting clear objectives; delivering interesting cases and examples; focusing on core issues; and providing engaging activities to apply concepts, build skills, and solve problems.

 **Happening!**

Because it isn't tied to the revision cycle of a larger book, *Business: A Changing World* inherits no outdated or irrelevant examples or coverage. Everything in the tenth edition reflects the very latest developments in the business world—from the recent recession, high unemployment rates, and the financial instability in Europe, to the growth of digital marketing and social networking. In addition, ethics continues to be a key issue, and Ferrell/Hirt/Ferrell use “Consider Ethics and Social Responsibility” boxes to instill in students the importance of ethical conduct in business. To ensure you always know what's happening, join the author-led Facebook group page supporting this text.

Across the country, instructors and students continue to raise an important question: How can Introduction to Business courses further support students throughout the learning process to shape future business leaders? While there is no one solution, we see the impact of new learning technologies and innovative study tools that not only fully engage students in course material but also inform instructors of the students' skills and comprehension levels.

Interactive learning tools, including those offered through McGraw-Hill *Connect*, are being implemented to increase teaching effectiveness and learning efficiency in thousands of colleges and universities. By facilitating a stronger connection with the course and incorporating the latest technologies—such as McGraw-Hill LearnSmart, an adaptive learning program—these tools enable students to succeed in their college careers, which will ultimately increase the percentage of students completing their postsecondary degrees and create the business leaders of the future.

## McGraw-Hill Connect



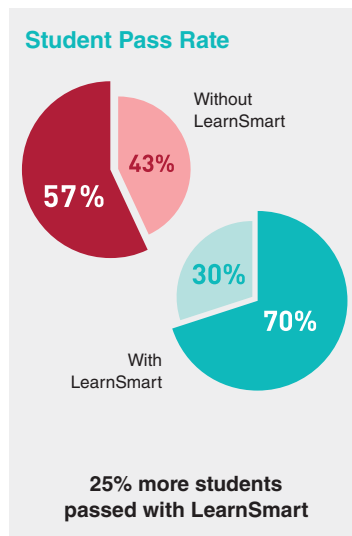
**connect**  
BUSINESS

*Connect* is an all-digital teaching and learning environment designed from the ground up to work with the way instructors and students think, teach, and learn. As a digital teaching, assignment, and assessment platform, *Connect* strengthens the link among faculty, students, and coursework, helping everyone accomplish more in less time.

## LearnSmart

### The smartest way to get from B to A

LearnSmart is the most widely used and intelligent adaptive learning resource. It is proven to strengthen memory recall, improve course retention, and boost grades by distinguishing between what students know and what they don't know and honing in on the concepts that they are most likely to forget. LearnSmart continuously adapts to each student's needs by building an individual learning path. As a result, students study smarter and retain more knowledge.



## SmartBook

### A revolution in reading

Fueled by LearnSmart, SmartBook is the first and only adaptive reading experience available today. SmartBook personalizes content for each student in a continuously adapting reading experience. Reading is no longer a passive and linear experience, but an engaging and dynamic one where students are more likely to master and retain important concepts, coming to class better prepared.

## LearnSmart Achieve

### Excel in your class

Accelerate student success with LearnSmart Achieve™—the first and only

adaptive study experience that pinpoints individual student knowledge gaps and provides targeted, interactive help at the moment of need.



## Interactive Applications

### A higher level of learning

These *exercises* require students to APPLY what they have learned in a real-world scenario. These online exercises will help students assess their understanding of the concepts.

## Videocases

### Real-world assignments

Industry-leading video support helps students understand concepts and see how real companies and professionals implement business principles in the workplace. The videocases highlight companies from a broad range of industries, sizes, and geographic locations, giving students a perspective from a variety of businesses.

### iSee it! Animated Video Explanations

What's the difference between *leadership* and *management*? What are line vs. staff employees? Topics such as these are often confused by students learning the language of business for the first time. What if you were able to convey important concepts in a fun, animated, and memorable way that explains the topic in a way students will quickly understand and remember? What if students could quickly access the clip while they are reading their *Connect* eBook. Instructors can access these clips in their Instructor Resource Library. They can also be assigned as Interactive Videocases.



### End-of-Chapter “See for Yourself Videocase” Clips

Videocases at the end of every chapter are supported by a stimulating mix of clips providing topical reinforcement and real-world insight to help students master the most challenging business topics—segments such as “Redbox Succeeds by Identifying Market Need” or “Groupon Masters Promotion to Become a Popular Daily Deal Site” or “Should Employees Use Social Media Sites at Work?” The videos can be found in the *Connect* eBook. Instructors can access these clips in their Instructor Resource Library.

### Manager’s Hotseat

Short videocases show real managers applying their years of experience in confronting certain management and organizational behavior issues. Students assume the role of the manager as they watch the video and answer multiple choice questions that pop up during the segment, forcing them to make decisions on the spot. Students learn from the managers’ unscripted mistakes and successes, and then do a report critiquing the managers’ approach by defending their reasoning. Instructors can access these clips in their Instructor Resource Library. They can also be assigned as Interactive Videocases.

## Media Rich eBook

*Connect* provides students with a cost-saving alternative to the traditional textbook. A seamless integration of a media rich eBook features the following:

- A web-optimized eBook, allowing for anytime, anywhere online access to the textbook.
- Our iSeeit! animated video explanations of the most often confused topics.
- Powerful search function to pinpoint and connect key concepts in a snap.
- Highlighting and note-taking capabilities as well as access to shared instructors’ notations.



# Applicable

## Chapter Objectives

These appear at the beginning of each chapter to provide goals for students to reach in their reading. The objectives are then used in the “Review Your Understanding,” the summary at the end of each chapter, and help the students gauge whether they’ve learned and retained the material.

## Chapter Outlines

These provide a useful overview of all the topics covered in the chapter, giving students a sneak preview of what they’ll be learning.

## Chapter-Opening Vignette

These anecdotes neatly illustrate the real-world implications of the business issues students will encounter in their reading. At the end of the chapter, students are asked to “Revisit the World of Business” and apply what they’ve learned throughout the chapter.

## “So You Want a Job in . . .”

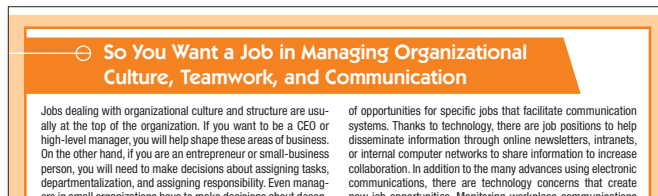
These end-of-chapter features offer valuable advice on a wide spectrum of business career choices.

## Spotlights on Business Issues

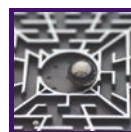
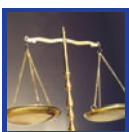
Consider *Ethics and Social Responsibility*, *Going Green*, *Responding to Business Challenges*, and *Entrepreneurship in Action* boxed features are placed liberally throughout the book to highlight important business issues in companies with which students are familiar.



From page 144 of this text



From page 225 of this text



## Application Exercises at the End of Every Chapter

Whether your students discover it on their own or you make it an integral part of your classroom and homework assignments, the end-of-chapter material provides a great opportunity to reinforce and expand upon the chapter content.

**Review Your Understanding** Are your students sometimes unsure whether they've properly absorbed the chapter material? This feature resummaries the chapter objectives, leaving students in no doubt of what they're expected to remember.

**Revisit the World of Business** These exercises refer to the chapter opening vignettes and ask students to answer more in-depth questions using the knowledge they gained in their reading.

**Build Your Skills** These activities are designed to be carried out in teams, giving you a launching pad for a lively in-class discussion.

**Solve the Dilemma** These boxes give students an opportunity to think creatively in solving a realistic business situation.

**Build Your Business Plan** Written by Therese Maskulka of Walsh University, and used in her own classroom, the end-of-chapter feature "Build Your Business Plan" and Appendix A, "Guidelines for the Development of the Business Plan" help students through the steps of the business plan relating to each chapter. Additional information and resources can be found in the Instructor's Manual.

**See for Yourself Videocase** Stimulate your students with these engaging case videos.

**Team Exercise** Encourage your students to develop their teamwork and critical thinking skills while addressing real-world global business challenges.

### Review Your Understanding

#### Define entrepreneurship and small business.

An entrepreneur is a person who creates a business or product and manages his or her resources and takes risks to gain a profit; entrepreneurship is the process of creating and managing a business to achieve desired objectives. A small business is one that is not dominant in its competitive area and does not employ more than 500 people.

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### Revisit the World of Business

1. What are some likely reasons that Chobani Yogurt has become such a success?
2. Describe some of the challenges that Chobani is facing.
3. Why is product

### Build Your Skills

#### Creativity



#### Background

The entrepreneurial success stories in this chapter are about people who used their creative abilities to develop innovative products or ways of doing something that became the basis of a new business. Of course, being creative is not just for entrepreneurs or inventors; creativity is an important tool to help you face on a daily activity skills to help

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#### Task

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### Solve the Dilemma

#### The Small-Business Challenge



Jack Gray and his best friend, Bruce McVay, decided to start their own small business. Jack had developed recipes for fat-free and low-fat cookies and muffins in an effort to satisfy his personal health needs. Bruce had extensive experience in managing food-service establishments. They knew that a startup company needs a quality product, adequate funds, a written business plan, some outside financial support, and a good promotion program. Jack and Bruce felt they had all of this and more and were ready to embark on their new low-fat

Howev  
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and how to  
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#### Discuss

1. Evalua  
store.
2. Are the  
busine
3. What a  
up the

### Build Your Business Plan

#### Small Business, Entrepreneurship, and Franchising



Now you can get started writing your business plan! Refer to Guidelines for the Development of the Business Plan following Chapter 1, which provides you with an outline for your business plan. As you are developing your business plan, keep in mind that potential investors might be reviewing it. Or you might have plans to go to your local Small Business Development Center for an SBA loan.

At this point in the process, you should think about collecting information from a variety of (free) resources. For example, if

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### See for Yourself Videocase

#### Sonic—A Successful Franchise with an Old-Fashioned



For those who are nostalgic for the classic drive-in diner experience, the Sonic fast-food chain helps fill that need. Sonic offers customers a dose of nostalgia with its 1950s-style curbside speakers and carhop service. As the United States' larg-

franchisee's  
experience  
To accompl  
purchase ex  
products liv

est drive-in fast-food chain, Sonic offers a menu selection that helps set it apart in the fast-food franchise market. Founder Tracy Sonic Drive-In (known then as Top H Oklahoma, in 1953 as a sole proprietor, Charlie Pappe, and eventually tu franchise.

### Team Exercise

Explore successful global franchises. Go to the companies' websites and find the requirements for applying for three franchises. The chapter provides examples of successful franchises. What do the companies provide, and what is expected to be provided by the franchiser? Compare and contrast each group's findings for the franchises researched. For example, at Subway, the franchisee is responsible for the initial franchise fee, finding locations, leasehold improvements

and equipment, fi  
and paying an 8  
into the advertisi  
formulas and oper  
ordering guidance  
a representative  
and ongoing supp

# Happening

**Facebook** Stay up to date! A lot changes in the business world, and on a daily basis, which is why the authors have created a Facebook page to stay connected with their readers from around the world and update them with relevant current events, study tips for students, and more. To join the community, please visit [www.bit.ly/FerrellFacebook](http://www.bit.ly/FerrellFacebook).

## Unique Chapter on Digital Marketing and Social Networking—

**Chapter 13** Digital media and digital marketing are recognized for their increasing value in strategic planning while adding new methods to the traditional marketing mix. Marketers' new ability to convert all types of communications into digital media has created efficient, inexpensive ways of connecting businesses and consumers and improves the flow and the usefulness of information. Additionally, this chapter describes how businesses use different types of social media and legal and ethical considerations marketers need to make.

**New to This Edition** As always, when revising this material for the current edition, all examples, figures, and statistics have been updated to incorporate the most recently published data and discuss any recent developments that affect the world of business. Additionally, content was updated to ensure the most pertinent topical coverage is provided. Here are the highlights for each chapter:

### Chapter 1: The Dynamics of Business and Economics

- New boxed features describing real-world business issues
- New examples of entrepreneurs

### Chapter 2: Business Ethics and Social Responsibility

- New examples of ethical issues facing today's businesses
- New "Consider Ethics and Social Responsibility" box in the appendix

### Chapter 3: Business in a Borderless World

- New examples of large multinational companies
- New content on opportunities for foreign investment in Mexico's oil industry

### Chapter 4: Options for Organizing Business

- New examples of companies with more than half their revenue generated outside the United States
- New boxed features describing current global issues

### Chapter 5: Small Business, Entrepreneurship, and Franchising

- New coverage of social entrepreneurship
- New examples of entrepreneurs
- New boxed features describing current business issues

### Chapter 6: The Nature of Management

- Expanded leadership section
- New *See for Yourself Videocase*—Ford Fusion

## Chapter 7: Organization, Teamwork, and Communication

- New content on Pepsi's global organizational structure
- New *See for Yourself Videocase*—Zappos

## Chapter 8: Managing Service and Manufacturing Operations

- New boxed features describing current business operational issues
- New *See for Yourself Videocase*—Home Run Inn

## Chapter 9: Motivating the Workforce

- New trend in businesses requiring their telecommuting workers to come back into the office
- New examples of companies with excellent motivational strategies

## Chapter 10: Managing Human Resources

- New updates on employee wages
- New graphic demonstrating perspectives regarding performance reviews

## Chapter 11: Customer-Driven Marketing

- New content on McDonald's emphasis on Millennials
- New boxed features describing customer-oriented marketing issues

## Chapter 12: Dimensions of Marketing Strategy

- Expanded content on reference pricing
- New examples of products in the life cycle

## Chapter 13: Digital Marketing and Social Networking

- Significant restructuring and rearrangement of material
- New information on Pinterest and Instagram
- New examples of Facebook tools
- New information on digital payment systems

## Chapter 14: Accounting and Financial Statements

- New information on the financial information and ratios of Microsoft
- Significant updates to industry analysis section
- More information on negative cash flow
- New information on types of Google stock

## Chapter 15: Money and the Financial System

- Additional information on deflation
- New section on shadow banking
- New boxed feature on Bitcoin

## Chapter 16: Financial Management and Securities Markets

- Description of beta as a financial term
- New content on electronic markets

## Appendix D: Personal Financial Planning

- New information on student debt
- New advice about how to borrow for educational purposes

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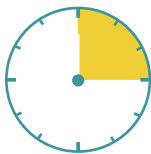
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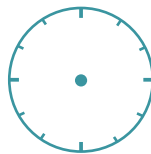


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*Instructor at Hinds Community College*

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