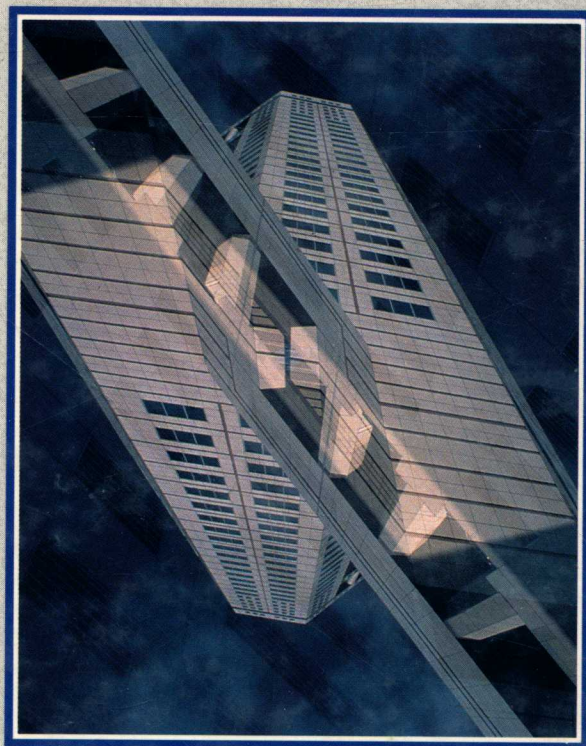


# THE LEGAL ENVIRONMENT OF BUSINESS

PRINCIPLES AND CASES



GEORGE W. SPIRO



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GEORGE W. SPIRO

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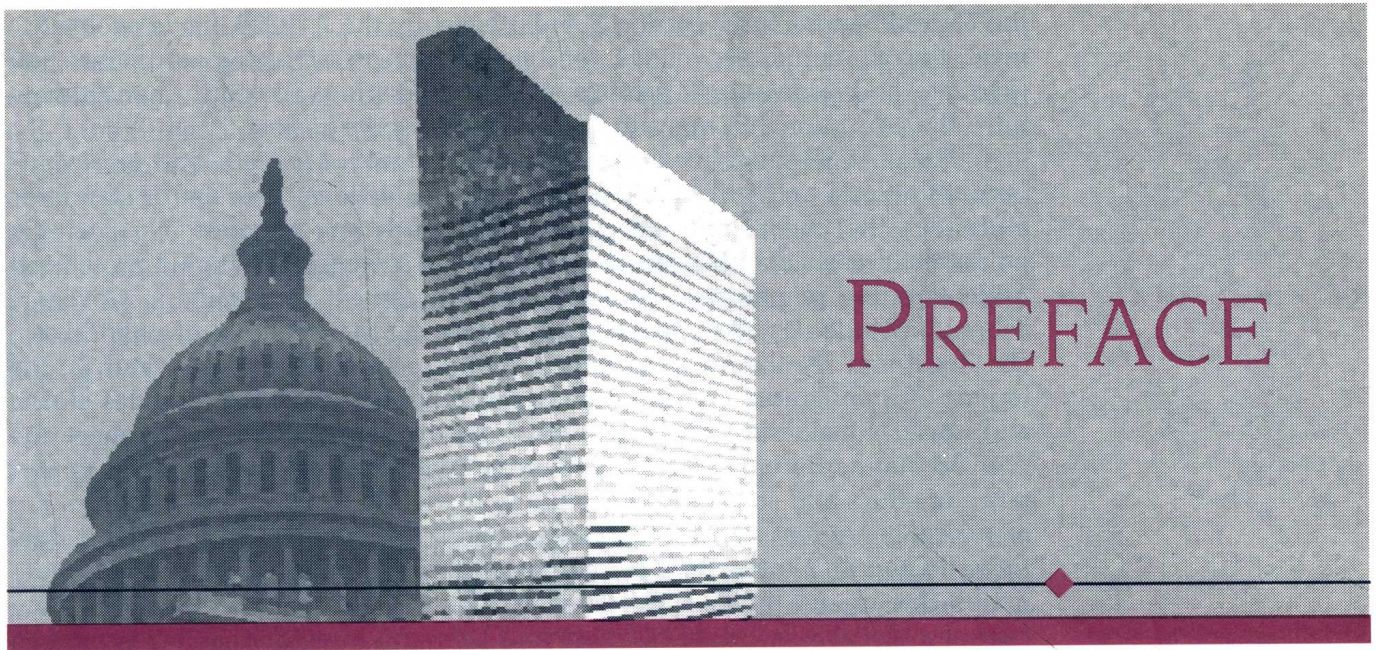
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*Happy is the one who finds wisdom,  
the one who gains understanding;  
For its fruits are better than silver,  
its yield better than fine gold.  
It is more precious than rubies;  
No treasure can match it.*

**-PROVERBS 3: 13-15**

*This book is dedicated with affection  
to my mother, father, wife, and son.*





# PREFACE

The primary goal of this text is to introduce students to the rapidly changing legal environment of business. We will work hard to provide students with a thorough introduction to the nature and functions of our legal system and its importance to citizen managers. *Legal Environment* accomplishes this goal using three main components: (1) a careful explanation of appropriate legal concepts, (2) an integrated approach to ethics and global legal issues in accordance with the most recent AACSB guidelines, and (3) a practical group of cases and materials designed to assure that students understand legal issues in a way that will be useful to their lives.

**LEGAL CONCEPTS.** I have made a great effort to present legal concepts as clearly as possible. To this end, major concepts are supplemented with numerous examples. Each chapter contains at least four major case excerpts that provide opportunities for students to develop their critical thinking and reasoning skills. Because it is most important that students know more than just what the law is today, major concepts are placed in context. Students must be able to think about what the law ought to be, how it might change in the years ahead, and how these changes will affect their lives. Finally, they should recognize that as intelligent, informed manager-citizens, they can have a voice in molding both law and public policy.

Several learning aids have been incorporated into this text in an effort to enhance student learning. Each chapter includes several *Concept Checks*—objective questions disbursed throughout the chapter to test and reinforce student learning. A *Marginal Glossary* has been designed so that students can quickly identify key terms and their definitions. Chapters have boxes that integrate coverage of international issues and provide students with biographical sketches and organizational profiles that reflect law in action. Photographs, charts, and figures further illustrate chapter materials.

**ETHICAL/GLOBAL ISSUES.** The American Assembly of Collegiate Schools of Business (AACSB) is the accrediting agency for schools of business and management in



the United States. Accreditation standards set by the AACSB “have evolved to meet the contemporary needs for business, professions, government, and graduate and professional schools so that students who study management have the educational background to effectively serve society.”

The AACSB guidelines were *completely redesigned in 1991*, and *Legal Environment* reflects and incorporates these new guidelines. One set of standards addresses the curriculum. For those who teach law courses, a curriculum guideline of particular importance requires that all programs should provide an understanding of perspectives that form the context for business. Coverage “should include: (1) ethical and global issues, (2) the influence of political, social, legal and regulatory environmental and technological issues, and (3) the impact of demographic diversity on organizations.” This book includes ethical and social considerations along with legal concepts, not only to meet the AACSB standards but to help promote a better understanding of the importance of ethics and social responsibility in the world in which we live. *Legal Environment* is not just about law; it is also about justice, morality, and individual rights. Chapter 2 introduces social and ethical concepts, which are then integrated throughout the text. In a similar fashion, we recognize that all of us are part of a global network of business and law, and international law is thus an integral part of this comprehensive text.

**PRACTICAL BASE.** One goal of the legal-environmental course is to ensure that students understand legal issues in a way that will be useful to their lives as managers. An understanding of the legal environment of business is a necessary component of successful management practice.

What legal issues will managers confront in their lifetimes? Financiers need to know about securities law. Accountants will face issues involving contracts. Human-resources managers will face issues of labor standards and labor relations. Marketing professionals will face questions of copyrights, product liability, and the like.

As students climb the managerial ranks, each of these subjects will become more important. Indeed, an understanding of how specific subject areas integrate with one another is essential even at the highest levels of management. The sole proprietor of a manufacturing firm, for example, might need to know what effect changing the business to a partnership or corporation will have on his or her life and on the health of the organization. A grounding in the legal environment of business will help.

## ■ STRUCTURE OF THE TEXT

*Legal Environment* is written for readers who have had little or no prior exposure to legal studies. That assumption has influenced organization and content throughout.

### **Part 1: The Nature of Law and the U.S. Legal System**

Chapters 1 and 2 explain the concept of law, its functions and sources, and its relationship to ethics. Chapters 3, 4, 5, and 6 provide the context for the legal issues that managers face. They introduce the content of our Constitution and



explain how it provides a framework for our government. They look at the structure of the federal and state court systems and examine how disputes are resolved there. They next turn to other systems for dispute resolution, including arbitration and mediation. Finally, they examine the workings of the "fourth branch of government," our administrative agencies, in some detail.

Part 1 thus provides a systematic overview of the basic parts of the U.S. legal system. A special effort has been made to illustrate these basics with examples drawn from the world of management. With this basic foundation in place, the student is in an excellent position to concentrate on the public and private laws that affect business. These laws are the subject of the balance of the text.

## **Part 2: Organizing to Do Business**

Almost every student will work for an organization, and each organization has a legal and managerial form. Chapter 7 begins with a brief introduction to agency law as it applies to the three basic organizational forms designed to provide a structure for doing business. The sole proprietorship, the partnership, and the corporation are then the subject of the bulk of the chapter. The whole of Chapter 8 is devoted to securities regulation, a subject of importance not just to future financiers and accountants but to entrepreneurs. A basic explanation of the 1933 and 1934 acts is followed by a discussion of the ramifications of insider trading.

## **Part 3: Regulating Private Business Conduct and Crime**

Contracts and torts share the bond of being largely private law and being rooted in the common-law tradition. Product liability has its origins in contract and tort law. Separate chapters on these three related subjects begin Part 3 and define the businessperson's private relations with other members of the legal environment. Chapter 12, on business crime, defines the responsibilities of the individual in society as a whole. Unfortunately, criminal law is an ever-increasing part of the world of management. The chapter attempts to develop a realistic picture of the world of criminal law and, in particular, the world of corporate crime.

## **Part 4: Employment and the Law**

Many students are interested in a career in human-resources management. Three chapters cover critical areas of the employment relationship. First, we look at the union movement in the United States as an introduction to a discussion of the legal framework for collective bargaining. A labor-relations executive cannot practice his or her craft without understanding this material. The next chapter deals with the ever-growing number of laws regulating labor standards. Workers' compensation, minimum wage laws, and the problems of occupational disease are among the subjects treated. A separate chapter on equal employment opportunity and affirmative action completes this part.

## Part 5: The Legal Environment of the Marketplace

Antitrust has been an area of most rapid change in the late 1970s and 1980s. The very goals of antitrust legislation are being questioned, and enforcement reflects changing values, attitudes, and beliefs. Chapters 16 through 18 present the student with both the historical and current picture of antitrust legislation.

Antitrust enforcement involves the Federal Trade Commission, which is also charged with regulating trade practices. Chapter 18 thus deals with this aspect of the FTC's work. Some monopolies are deliberately granted by the government in the form of patents, copyrights, and trademarks, and the regulation of this intellectual property is the subject of the final part of Chapter 18.

The work of the FTC in debtor-creditor relations provides a bridge into the world of credit management, credit abuse, and bankruptcy. Chapter 19 discusses both personal and business bankruptcy.

Environmental protection issues are everyone's concern. Business leaders and civic leaders alike struggle to find ways to help our economy grow without sacrificing our treasured natural resources. Chapter 20 describes the current state of legislation. However, we first build a careful base of understanding through an overview of basic property law—groundwork that students need in order to understand the issues of environmental protection.

The book concludes with a look at international business law. Students can no longer assume that a knowledge of U.S. business law and management practice is sufficient. They will be part of a world of multinational exchange. Chapter 21 looks at how other countries' businesses become involved in our market and how differences in law are resolved. Specifically covered are the Foreign Corrupt Practices Act, the act of state doctrine, licensing, and joint venturing.

### ■ SPECIAL FEATURES

**ORDER OF THE CHAPTERS.** I have attempted to group the chapters in a way that coincides with certain logical pedagogical concerns. However, each instructor may wish to regroup them to fit the particular needs of his or her own educational philosophy. Certain chapters obviously need to be handled together; as far as possible, however, chapters have been written to be independent of each other. Numerous cross references facilitate the use of chapters in differing orders, and an extensive glossary assures that any unfamiliar terms encountered in a chapter read out of its original sequence will be easily accessible to students.

**CASES.** One hundred classic and contemporary cases have been carefully selected for their pertinence to a major point in a chapter, for their intrinsic interest, and for their usefulness in exemplifying the process of legal reasoning. Each case has been carefully edited and includes a brief headnote to assist student learning. Discussion questions are included for each case. In keeping with my goal of showing the background of current law, classic cases complement the most recent excerpts.

**CHAPTER SUMMARIES.** Each chapter has a carefully written summary that reviews the most important ideas and concepts contained in the chapter.



**BIBLIOGRAPHY.** The sources on which I drew in the writing of this book are listed by chapter at the end of the book. Students may find this list useful in the preparation of research papers or as a guide to further information.

**CASE PROBLEMS.** At the end of each chapter, ten case problems give students an opportunity to apply the information contained within the chapter. Many of these cases are hypothetical; most of the actual cases have been disguised. (Citations for the actual cases are given at the end of each problem.)

**MARGINAL GLOSSARY.** A Marginal Glossary has been designed so that students can quickly identify key terms and their definitions. Each new term is highlighted and clearly defined in the margin of the text as it appears.

**THE INTERNATIONAL AND ETHICAL ENVIRONMENT.** Boxes incorporating ethics and global issues are dispersed throughout the text in order to incorporate and highlight these important elements of law. These boxes enrich the entire book and complement separate chapters on ethics and international business law.

**PERSONAL AND ORGANIZATIONAL PROFILES.** Chapters are also enhanced by boxed inserts that give students an insight into law in action. Biographies of noteworthy lawyers, judges, or managers and profiles of organizations that are dealing with legal issues are included. Profiles of Thurgood Marshall, Sandra Day O'Connor, Dow, Inc., Union Carbide, and others make the book stimulating reading.

**PHOTOGRAPHS, CHARTS, AND FIGURES.** Each of these items is used to illustrate chapter material. These items can capture students' interest and enable them to learn the concepts embodied in the chapter.

**CHAPTER SUMMARIES.** Chapter summaries have been designed to focus student attention on the most important themes developed in the chapter. These summaries are followed by carefully constructed chapter case questions.

**CONCEPT CHECKS.** Objective questions have been dispersed throughout each chapter. These questions help students review critical chapter topics.

**SUPPLEMENTS.** Supplements for *Legal Environment* include a *Study Guide* prepared by Bradley J. McDonald, Greg C. Anderson, and Timothy P. Atchison of Northern Illinois University.

Developed by Teresa Brady of Holy Family College, the *Instructor's Manual* also includes a completely redesigned *Test Item File*. In order to ensure that questions are of the highest quality, the test bank that accompanies *Legal Environment* has been reviewed by a group of instructors within the legal environment of business.

A joint venture between ABC News and Prentice Hall, the *ABC News/PH Video Library* is a comprehensive library of videos, including features and documentary excerpts from a variety of such ABC News programs as *World News Tonight*, *Nightline*, *Business World*, and *This Week with David Brinkley*. Videos



have been selected on topics which pertain to the important concepts and current debates in the discipline and which work well in the legal-environment curriculum.

A carefully prepared "mini-newspaper," *The New York Times/PH Contemporary View* supplement, provides instructors and students with recent articles selected from the pages of *The New York Times*. Linking both the text and the classroom with today's real-world business and legal environment, *The Contemporary View* is designed to enhance the student's reading appreciation of both textbooks and newspapers.

## Acknowledgments

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GEORGE W. SPIRO





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