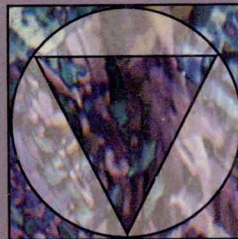


S E C O N D E D I T I O N

# THE LEGAL ENVIRONMENT OF BUSINESS



F. WILLIAM McCARTY  
JOHN W. BAGBY

# THE LEGAL ENVIRONMENT OF BUSINESS

**F. William McCarty**  
*Western Michigan University*

**John W. Bagby**  
*Pennsylvania State University*

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Senior sponsoring editor:	Craig Beytien
Developmental editor:	Karen E. Perry
Marketing manager:	Ron Bloecher
Project editors:	Karen Murphy and Jean Roberts
Production manager:	Irene H. Sotirosso
Designer:	Stuart Patterson
Art coordinator:	Mark Malloy
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# PREFACE



The legal environment is of concern to small business and to large multinational enterprises. Daily newspapers and weekly business magazines constantly include articles focusing on the legal environment's effect on business firms. From arbitration to product liability laws or antitrust provisions to securities regulations, business managers need to know how state, national, and international legal requirements are likely to affect business activities. The dramatic changes in the international environment clearly are changing the legal environment for global business activities.

The international changes that have occurred since the beginning of the decade were unimaginable only a few years ago. The most visible symbol of the differences between the communistic East and the capitalistic West, the Berlin Wall, is no more. The cold war between West and East ended as the Soviet Union collapsed. Countries such as Czechoslovakia, Poland, and even Bulgaria are moving toward democracy and new legal systems incorporating many Western concepts. East Germany disappears and Yugoslavia splits into several parts. The countries of the European Community move closer and closer together as laws are harmonized and trade barriers fall. Other countries on the European continent seek to align themselves with the Community. The "chunnel" between France and England moves toward completion, promising an unprecedented integration of the British Isles into Europe.

This edition of the text integrates some international perspectives into topical legal problem areas. The business manager who understands the legal environment, both at home and abroad, will be able to see opportunities and problems that others cannot envision. What are some of the differences in the legal systems that businesses encounter in different countries? Will an arbitration agreement in a contract reduce costly litigation and be enforced? What does the new Clean Air Act mean to a firm? Are there any changes in tort law that could affect a firm's liability for products it manufactures, sells, or services?

The approach of this text is based on a belief that a blending of the study of private and public law reflects the best method to understand the legal environment of business. Regulatory environmental and antitrust laws can be studied along with contract and tort principles. We have retained our use of introductory segments to provide an overview of chapter material along with a depiction of the past, present, and future developments related to the chapter's topic. The case and extracts illustrate important textual comments and concepts. The case questions and end-of-chapter summaries and problem questions enhance the review of legal principles in specific applications. In the previous edition, ethical dilemmas and problems were provided at the end of each part of the text. In this edition, we have integrated ethical considerations into each chapter because we feel that today both professors and students are deeply concerned with ethical problems.

We have designed this text to respond to the accreditation standards of the American Assembly of the Collegiate Schools of Business (AACSB). The new AACSB standards state:

Both undergraduate and MBA curricula should provide an understanding of perspectives that form the context for business. Coverage should include:

- Ethical and global issues
- The influence of political, social, legal, regulatory, environmental, and technological issues, and
- The impact of demographic diversity on organizations.

Thus, this text addresses the political, social, legal, regulatory, and environmental issues affecting business organizations. Antitrust, securities, and labor regulatory concerns are addressed in the chapters in Parts 5 and 6 of the text. Chapter 19 discusses the management of demographic diversity. Chapter 20 focuses on the environmental laws. In addition, ethical and global issues are integrated into the chapters by providing international perspective notes and ethical dilemma situations.

## COVERAGE

This text provides historical information so that the student may better comprehend the context for the development of the law as it affects both today's and tomorrow's legal environment. The integration of ethical dilemmas into each chapter enhances the ability of students to see the relationship between how ethical problems arise in business and the legal regulatory response. The international perspectives ensure that some attention to differing legal environments will be considered when studying global business activities. In both the beginning and ending chapters, the relationship between law and ethics is explored. Similarly, the international aspects of law are introduced in the text's first chapters while a more detailed discussion is the focus of the next to last chapter.

This is a comprehensive text. We have built upon the chapters in our first edition, but have added new sections to chapters, expanded sections into complete chapters, and where appropriate, have condensed materials into fewer pages and chapters. New cases have been added and many reliable cases from the first edition have been edited. While most instructors will find more material than they can cover in one course, each professor should find adequate text and case materials for the topics he or she determines is most important for the students at a particular college or university.

## TEXT ORGANIZATION

This text is organized into six parts, based on six concepts important to an understanding of the social, political, legal, and regulatory environment of modern, competitive business firms. Throughout the chapters contained in each part there are discussions of ethical, international, and controversial matters.

Part 1 introduces the legal systems of the United States and contrasts this with systems in other nations. This focuses on topics concerning legal process and institutions, dispute resolution techniques, and constitutional laws.

Part 2 focuses on the private law concerns of property, contracts, and torts. Property law is fundamental to nations with a tradition of market economics, capitalism, and democracy, like the United States. Contract law is the basis of all transactions and provides the foundation for international commerce. The discussion of torts addresses the responsibilities between individuals. Private law profoundly affects the obligations and liability of all business firms.

Part 3 addresses several particular legal problems that business firms face. The United States offers consumers more legal redress than most other nations. However, product liability and consumer financing laws are spreading throughout the world, changing the relationship between consumers and producers of goods and services.

Part 4 discusses the formation, financing, operation, and internal and external problems of operating business organizations. A wide variety of forms are discussed: sole proprietorships, Subchapter S corporations, and corporations. Regulations of the securities markets govern firms' access to the public capital markets.

Part 5 addresses the competition laws known as antitrust in the United States. While antitrust enforcement diminished during the 1980s, there are signs of its resurgence. The European Economic Community (EC), Japan, and other industrial nations are now beginning to adopt and enforce anti-monopoly laws largely based on the U.S. model. These considerations are likely to become more important considerations as the 21st century approaches.

Part 6 addresses the important considerations of employee relations. In recognition of the reduced impact of labor-management relations (trade unionism), this edition has reduced this coverage from two chapters to one. However, the expanding direct regulation of employment by the federal, state, and local governments has led to somewhat greater coverage of these areas in this edition. Workplace safety, compensation matters, employment contract conditions, and equal employment laws are discussed in two separate chapters.

Part 7 provides an integrative capstone to the study of the legal environment. This part focuses on environmental law, international law, and the social responsibility of business. These matters have received increasing attention during the 1980s but are placed last to highlight how they apply concepts discussed earlier. This also provides an opportunity for students to integrate other concepts learned earlier into a more complex framework.

## CASE FEATURES

The text combines our analysis of important legal principles with extracts from court cases that apply some of the principles to specific situations. Each chapter includes three to six cases. All cases are introduced by a factual summary in the authors' language so that the reader can understand the situation being discussed by the court. Both recent and later cases are used to portray both a historical context for the development of the law and the current conditions in which legal problems occur. New cases have been added in almost every chapter so that students can see how contemporary legal problems are being addressed.

Because the law is subject to individual opinions and different interpretations, some dissenting opinions are included. They present contrasting legal views and often pose different approaches to solving particular problems. We continue to include case questions so that vital concepts of each situation are addressed by the reader.

## CHAPTER PEDAGOGY

Each major topic is introduced with contextual matters covering the historical, social, political, and economic influences that have shaped the legal environment of business. The text employs the SQ3R study method that is introduced more fully in Chapter 1. This

method enhances students' critical thinking skills by emphasizing the survey, question, read, recite, and review method of study.

Each chapter begins with several survey techniques to engage student interest. First, "key concepts" open each chapter, identifying important topics. Next, the "Introduction . . . Past, Present, Future" section offers contextual matters that provide integrative perspective for the issues that have been addressed by law and regulation. An overview follows to tie the various subtopics to the key concepts and the context.

Within the chapters are pertinent questions addressing important expressed or implied concerns raised by the cases. Boxed presentations and visuals offer relevant and concise presentation of the material, enhancing study. Commentary and business press coverage of key controversies enhance students' ability to question critically the important contemporary issues.

Each chapter concludes with a list of key terms and end-of-chapter problems designed to reinforce the SQ3R method with a mixture of actual cases, hypotheticals, and analytical expositions that review the concepts introduced.

## ADDITIONAL FEATURES

The text includes both a brief and a detailed table of contents to enhance the survey features of the text. The glossary, which is more detailed than that in many texts, defines each term that is boldfaced or italicized in the text. This frees the reader from constantly consulting outside references and legal dictionaries. The appendixes present excerpts from important laws and regulations, as well as from the U.S. Constitution, which are relevant to the legal environment of business.

## SUPPLEMENTS

*The Study Guide for Students* provides a summary of important chapter topics, a brief of each case, and objective and essay problems for review. Professor James Jurinski of the University of Portland has prepared the *Study Guide*. *The Instructor's Manual*, prepared by the authors, contains answers to case and problem questions, transparency masters, and other pertinent information for professors adopting the text. Computest 3, a computerized text bank, is also available to enhance the preparation of quizzes or examinations.

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F. William McCarty  
John W. Bagby



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