



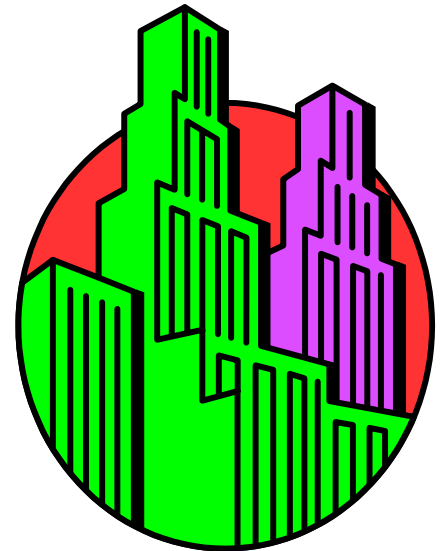
The Modern Environment of Business

Chapter 1

The Modern Environment of Business

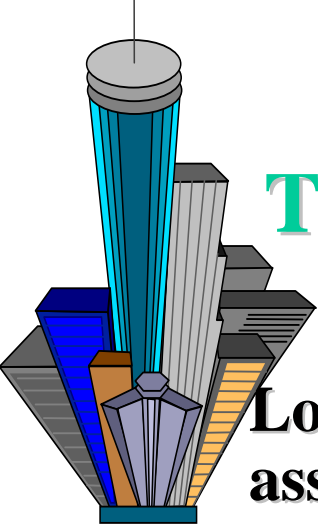
Chapter Issues

- **Key Functions of the Legal Systems**
- **Sources of Law**
- **Classifications of Law**
- **Ethics and Business**



September 11, 2001

The Effects of Terrorism in the Modern Business World



Loss of thousands of lives and billions of dollars in assets

- Increase in military and domestic security
- Ripple effect to businesses and legal relationships
- Airlines cut about 100,000 employees, nearly go bankrupt and are bailed out by the federal government
- Companies lose employees through death and economic losses and decide whether or not to invoke *force majeure* and “acts of war” clauses in contracts
- Some companies pushed over the brink to bankruptcy
- Others are able to reorganize, working creatively and ethically in a significantly changed world



Key functions of the Legal Systems

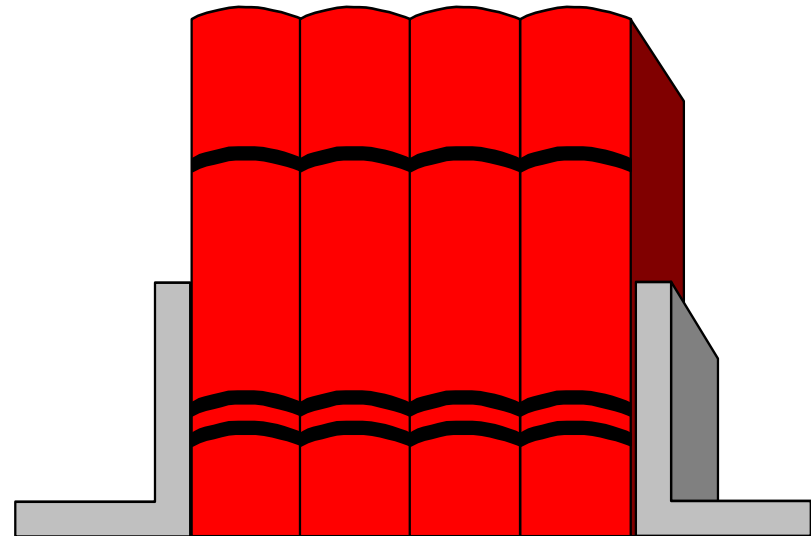
- **Enhancing social stability** - limit actions that are detrimental to the “public interest” and encourage beneficial actions
- **Conflict resolution** - courts are one mechanism for resolving disputes
- **Social maintenance** - reflect the social values and customs of a society
- **Social change** - effective way to change what is “acceptable” behavior
- See “Chad: A Third-World Country Looks to Create a Legal System”

Classification of Laws

- Common Law vs. Statutory Law

Statutory Law

- **Legislatures create statutory law**
 - Federal Laws
 - State Laws
 - Municipal Laws
- **Judges interpret**
- **Must pass Constitutional muster**



COMMON LAW



- **Came from old English system**
- **Judge usually followed earlier decisions that resolved similar disputes**
- **Legal principle from cases is called precedent**
- **Use of this precedent is Stare Decisis**
- **Novel issue? Judge makes new common law**
- **Common law varies by state**
- **Provides stability but allows change**

Classifications of Law

- **Public and Private**

- *Public*- legal relationships between members of society and the government

- influence behavior; bring about social change.

- Criminal, constitutional, social security.

- *Private*- legal relationships among members of society

- resolves disputes; primarily common law.

- Contracts, torts, agency, property.

Classifications of Law

- **Civil and Criminal**
- **Criminal**
 - The guilty can be fined, imprisoned or both
 - Either a felony or a misdemeanor
 - Requirement: “beyond a reasonable doubt”
- **Civil**
 - Wrongdoer pays money, but no jail time!
 - Requirement: “preponderance of the evidence”
- **Substantive and Procedural**
- **Substantive**
 - Defines legal rights and regulates behavior
- **Procedural**
 - How it is to be enforced (the “nuts and bolts”)



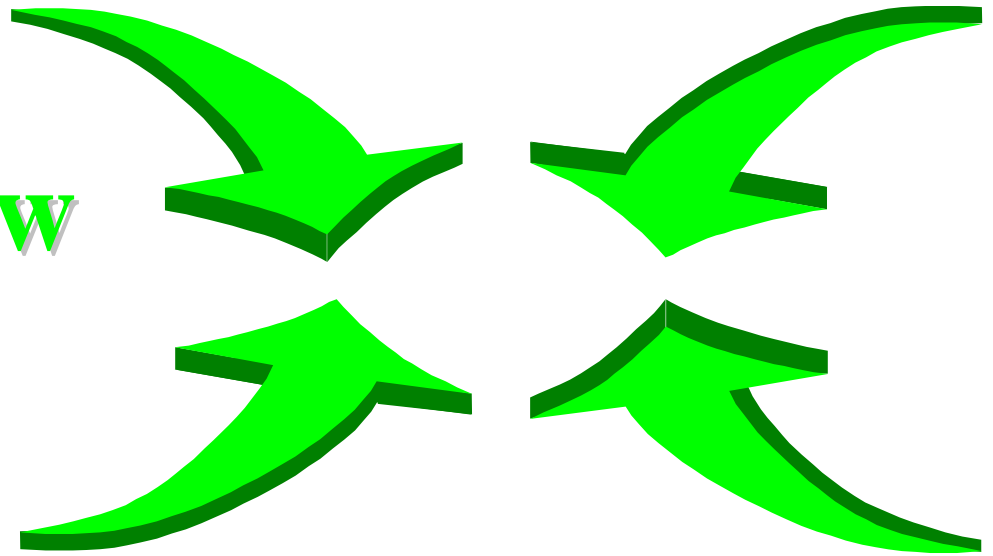
United States v. Stanley (1987)



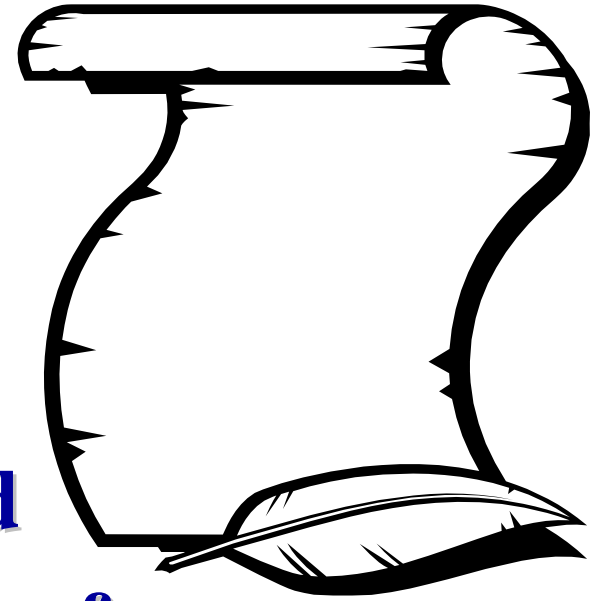
- **Stanley, in Army, volunteers to test special clothing**
- **Instead, Army gives him LSD**
- **Years later, Stanley, suffering mental problems, finds out and sues Army under Federal Tort Claims Act**
- **Court says “No Go” - you were in the Army, so government not liable**
- **Held: Art. I, Sec. 8 of Constitution gives total control over rights of military personnel**
- **Dissenting Opinion: Re: Medical trials at Nuremberg--Sue the officers, not the gov't.**

Sources of Law

- **Common Law**
- **Constitutions**
- **Legislatures**
- **Administrative Agencies**
- **Judiciary**
- **Executive**



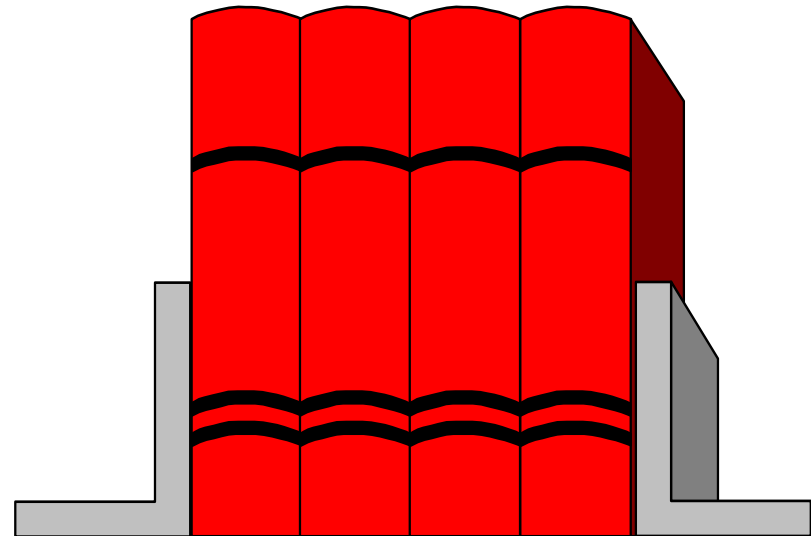
Constitutional Law



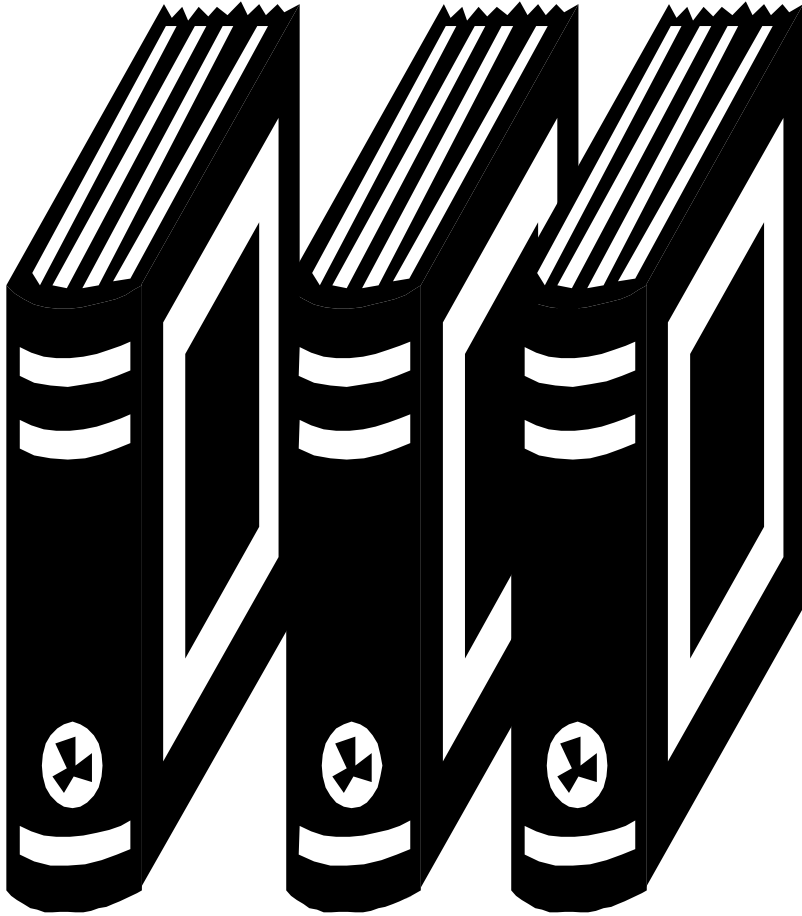
- **Fundamental law of the land**
- **Establishes limits and power of government**
- **U.S. Constitution, the oldest written constitution in force in the world**
- **Establishes legislative, executive and judicial branches of government**
- **Each state also has its own constitution**

Statutory Law

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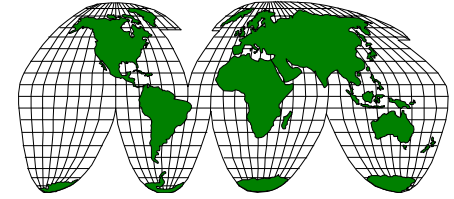


Administrative Regulations



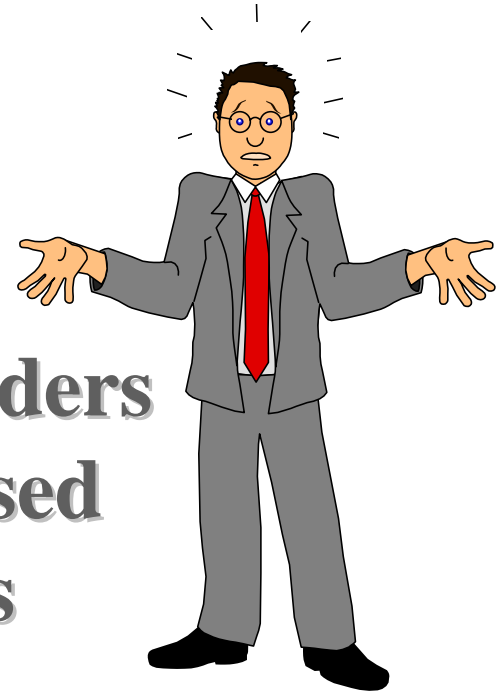
- **Congress creates statute**
- **Statute names administrative agency**
- **Agency makes regulations**
- **Chapter 6 will study in depth**

International Sources of the Law



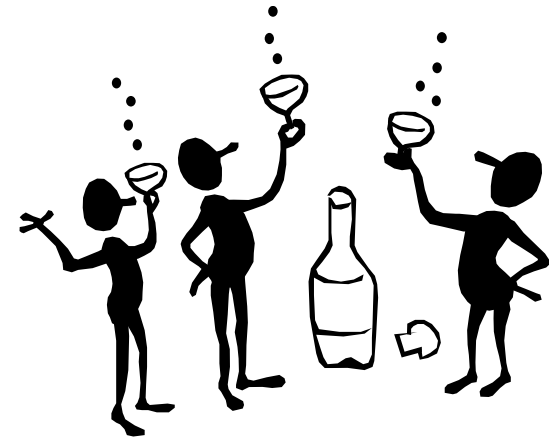
- Civil Law Countries
- France, Germany, Italy, Spain, Japan
- Code Law
- Statutory Interpretation
- Common Law Countries
- U.S., Britain, Nigeria
- Judge-Made Law
- See “Sources of Law in Japan”
- Religious Law Countries
- Middle East, India
- Islam, Hinduism,
- Communist Law Tradition
- China, Cuba
- Political Agenda part of the law
- State ownership

Ethics and Business



- **Public perception of business leaders has fallen, probably from increased expectations & big horror stories**
- **More and more focus is on ethics**
- **Not to be confused with rules of law**
- **See Soldano v. O'Daniels**
- **See also United States v. Stanley**

Soldano v. O'Daniels



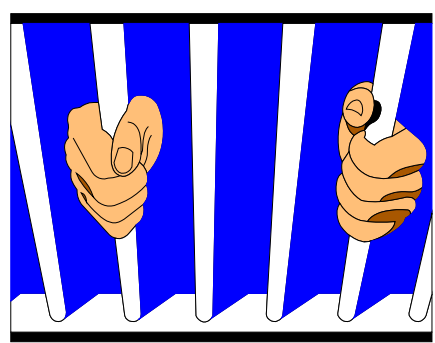
- **Gunman enters saloon - pulls gun and threatens to kill Soldano.**
- **Patron runs across the street and asks bartender to call police or let him call.**
- **O'Daniels refuses and Soldano is killed.**
- **Ethics or legal violation?**
- **What duties do we have to assist others?**

Held: There are enough legal issues to permit the case to go forward for trial.



Cyberlaw: Online Ethics and Legal Compliance

- **The evolution of computer and the Internet in relation to the law have created ethical challenges for businesses**
- **Invasion of privacy is an issue in ethical discussions by employers and employees**
- **Sexual harassment and obscene e-mails are problems in companies**
- **How do businesses choose to monitor the company computers?**
- **Does legal and ethics on-line training for employees have benefits?**



International Perspective: “What Does Business Do When A Government Is Immoral?”

- **Prison labor is used in China to make export products**
- **There are international concerns about US companies who have joint ventures using prisoners**
- **Levi Strauss and Timberland have stopped their productions out of ethical considerations**
- **One Theory: “Only the rules of law keep state enterprises from riding roughshod over people”**
- **See article: “China Fights Corruption With Slogans, Not Rule of Law”**