

Law in Business

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WHAT'S COVERED

In this lesson, you will learn about the role of law in business settings. Specifically, this lesson will cover:

1. The Law in Business Disciplines

Foundational courses taken by undergraduate business students usually include accounting, finance, management, and marketing. An understanding of the legal environment of business is relevant - indeed, essential - to functioning well within each of those disciplines.

Additionally, a solid understanding of the legal environment can help avoid liability or at least minimize risk. In business, it is not enough to conduct yourself and your business ethically. You must also ensure that you understand the legal environment in which you are working.

Therefore, it is important to you, to your employer, and to all the other people who may be relying on your business expertise - such as your employees and your family - to understand the legal environment. Such an understanding will help you avoid or lessen the likelihood of liability exposure, enabling you to manage your business affairs successfully, unhampered by unmanaged legal liability risks.

The following sections provide some examples of how law affects specific business disciplines. Of course, this is just an overview. It is the responsibility of each business professional to become familiar with the legal environment in his or her profession.

1a. Accounting

During the last several years, accountants have been in the spotlight due to culpable behavior of some members of the profession during well-known business scandals, such as the Enron case.

IN CONTEXT

Largely as a result of the fallout from the Enron case, Congress passed the Sarbanes-Oxley Act (SOX) of 2002, which imposed stringent oversight requirements on accounting and auditing firms. The requirements seek to ensure competence, compliance with security laws, and conduct consistent with generally accepted accounting principles.

Of course, the Enron scandal and SOX are both fairly dramatic examples of how law can affect accounting. Other ways in which law affects this discipline occur through regulation.

➔ **EXAMPLE** The U.S. Securities and Exchange Commission's (SEC) mission is to protect investors and to maintain a fair market, among other things. Accordingly, the SEC enforces accounting and auditing policies to allow investors to make decisions based on accurate information. The SEC pursues charges of accounting fraud and oversees private regulation of the accounting profession.

1b. Finance

Like accounting professionals, many who work in finance are also regulated by the SEC. The SEC aims to ensure that investors receive accurate information to make investment decisions. Moreover, the SEC enforces prohibitions against insider trading and pursues claims of other types of securities fraud, such as Ponzi schemes.

There are several statutes that protect consumers in financial transactions.

➔ **EXAMPLE** The Truth in Lending Act (TILA) requires lenders to accurately provide information concerning the costs involved in offers of credit. TILA and its corresponding Regulation Z are administered by federal banking agencies.

1c. Management

Law also affects those in management.

➔ **EXAMPLE** Knowledge of employment law is essential to professionals who work in human resources. Title VII of the Civil Rights Act prohibits discrimination related to protected characteristics in hiring and employment practices.

Those in management also must be aware of the potential liability that demands on employees might create.

IN CONTEXT

In Oregon, McDonald's was found to be liable for injuries resulting when an off-duty, off-premises worker fell asleep while driving. The employee had worked three shifts during a twenty-four-hour period. The court held that employers have a duty to avoid conduct that creates a foreseeable risk of harm to others.

Faverty v. McDonald's, 892 P.2d 703 (Or. Ct. App. 1995).

1d. Marketing

If your field is marketing, the law also relates to your work. Marketers must be particularly attuned to tort law, consumer protection law, and intellectual property law.

➔ **EXAMPLE** To avoid charges of libel, those in advertising need to take care not to defame another person, business, or product. It might be tempting to do so, especially if you are engaged in serious competition with another company that sells a similar product.

Likewise, marketers must take great care not to engage in deceptive advertising practices, lest their employer run afoul of the Federal Trade Commission's (FTC) policies or the FTC Act.

Additionally, marketers must be aware of other people's intellectual property to avoid copyright or trademark

infringement in their own work product.



SUMMARY

In this lesson, you learned about the role of **the law in business disciplines**. While the law is relevant to every business discipline, this lesson specifically focused on its role in **accounting, finance, management, and marketing**. Minimizing liability exposure is a primary concern of business, and an understanding of the legal environment relevant to each disciplinary perspective helps business practitioners minimize their risk of incurring liability to themselves or to their employers.

Best of luck in your learning!

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