

Chapter 3

Law, Common Law



Chapter 3 The Political and Legal Environments Facing Business Political and legal systems across countries both coverage and vary. The cultural, political and legal, and economic systems create the potential benefits costs, and challenges of the business environment in a country. Political systems can be assessed according to two dimensions: the degree to which they emphasize collectivism as opposed to individualism, and the degree to which they are democratic as opposed to totalitarian. Collectivism reasons that the needs of society take precedence over the needs of the individual. Collectivism encourages state interventions in society in the belief that government's role is to define the needs and priorities of a country. Political officials and agencies have a limited role in an individualistic society, whereas they have an extensive role in a collectivist society. Individualism sees the primacy of the individual's freedoms in the political, economic, and cultural realms. Individualism endorses minimal intervention in the economy by the government. Democracy and totalitarianism are the polar ends of the political spectrum. In a representative democracy, there is wide participation in the decision-making process. In totalitarian regimes, few citizens participate. The measure of political freedom looks at the degree to which fair and competitive elections occur, the extent to which individual and group freedoms are guaranteed, and the existence of freedom of the press. Recent data, in suggesting a situation of freedom stagnation, may signal a backlash against democracy and a resurgence of authoritarianism. Political risk occurs because of changing opinions of political leadership, civil disorder, or external relations between the host country and the foreign investor's home country. The type of legal system used in a country

determines many elements of the business environment. The role of law endorses systematic and objective laws applied by public officials who are held accountable for their administration, whereas the rule of man holds that legal rights derive from the will of the individual who has the power to enforce them. A common law system is based on tradition, precedent, custom and usage, and interpretation by the courts, a civil law system is also called a codified legal system, a theocratic legal system is based on religious precepts, a customary legal system follows the wisdom of daily experience, and a mixed legal system combines elements of other systems. Primary legal issues in international business include product safety and liability, marketing practice, rule of origin, jurisdiction, and intellectual property protection. Patents, trademarks, trade names, copyrights, and trade secrets are referred to as intellectual properties. The protection of intellectual property rights within a country is moderated by its particular legal legacies, level of economic developments, and cultural orientation toward individualism versus collectivism. Daniels, Radebaugh, Sullivan. (2009). *International Business: Environments and Operations*. Upper Saddle River, New Jersey: PEARSON.