

Chapter 10 Review Questions

1. Why is the legal environment important for international business?

The law sets the rules of the game within which business operates. The legal environment created by laws, regulations, court decisions and, in some countries, by customs, is important because it can help or hinder business in the strategies and policies it pursues to achieve its objectives. On the one hand, it can create opportunities for firms in their attempts to cut costs, enter new markets, and increase revenues and profits. On the other hand it can frustrate firms' abilities to meet their objectives and can even pose threats to their survival.

It can influence a firm all the way from the time of its creation to its death. It can influence, *inter alia*, what the firm produces, how it produces, the price it charges, how the product is promoted, its liability to the customer after the product or service is sold, how it treats employees, the financial information to be made public, how it raises finance, and whether it can take over, or be taken over, by another firm.

International business has to cope with a variety of legal systems in the countries where it is operating. Differences in legal systems can make a country more or less attractive as a market and as a location for investment. Different legal systems offer varying levels of protection of intellectual property.

Students should be encouraged to illustrate their responses with concrete examples from international business.

2. Explain why knowledge of different legal systems would be useful for firms involved in international trade and investment.

Students could usefully review their understanding of the main legal systems in the world, civil law, common law, Sharia law, and customary law. Systems can vary significantly depending on the sources of law and on the country where they operate. Knowledge of different legal systems is useful for business because these systems determine the legal and regulatory framework within which firms operate. The opportunities and threats for business are likely to vary from one system to another. For instance, financial institutions would face a very different legal experience in countries such as Iran operating under principles of Sharia law to those, like the USA with common law systems. They would find that, in Iran, they could not sell the range of financial products on offer in the USA e.g. Sharia law frowns on gambling yet that is what futures dealing in foreign currencies involves. Neither could finance be raised in the same way in countries operating under Sharia law.

In addition, different countries may offer different levels of protection for example, to firms and their rivals, employees, shareholders, suppliers, the environment, or to intellectual property rights. These could have important implications for company behaviour in terms of business decisions on location, mergers and acquisitions, technology transfer, pricing, product, promotion and on company performance through their impact on costs, competitiveness, revenues, and profits.

3. Explain why firms involved in international trade might use international arbitration bodies to settle disputes.

Where there is a choice, firms facing a dispute abroad may opt for arbitration rather than go through national courts. Advantages include: neutrality between the plaintiff and the defendant, because arbitrators have to meet strict independence tests and can be drawn from countries other than those of the firms concerned; arbitration normally takes place in

private so firms have an assurance of confidentiality; the procedures are flexible and awards can often be enforced internationally unlike national court decisions.

Students could be encouraged to discuss the disadvantages: the cost can be greater than court litigation; the process may be slow even when there is no justifiable defence; usually there is no right of appeal; it may not be so effective when more than two companies are involved (see:<http://www.lawteacher.net/free-law-essays/commercial-law/advantages-and-disadvantages-of-international-commercial-arbitration-commercial-law-essay.php>).