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| ***External influences – Legal*** |

**Introduction:**

* ***Main external influences on a business – Legal influences - p.83-91***

All businesses depend for their survival on understanding and responding to **external** factors that are beyond their control.

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| What could these **external** factors be? |

Many of the factors are ‘**constraints’** in that they limit the nature of decisions that business managers can take.

Here we will discuss **legal** requirements imposed by governments as a constraint on business. However, external influences also create **opportunities** and may enable a business to become more successful – applying new **technology** for example.

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| The doctrine vicarious responsibility:  **Damage** is: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_   * Employer is **liable** for the damage caused to another person **by** an employee * Employee is **personally** responsible, prime responsibility lies with the employer * **Insure** against such risks |

**Legal constraints on businesses:**

* **Employment practices**
* **Consumer rights**
* **Business competition**
* **Location of business**

***The law and employment practices:***

Laws to control the **relationship** between \_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_: Objectives are-

* *Prevent exploitation of workers by powerful* ***employers***
* *Prevent loss of industrial output and national income from excessive use of* ***trade union*** *collective action (****employees****) such as strikes etc.*

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| **Legal constraints:**   * *Recruitment, employment contracts and terms of employment* * *Health & Safety at work (H&S)* * *Minimum wages* * *Trade union rights and responsibilities* |

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| Impacts | Impacts | Evaluation - Drawbacks | Evaluation- Benefits |
| **Recruitment**, employment contracts and **terms** of employment | **Health** &**Safety** at work | **Supervisory** costs regarding a firm’s recruitment, selection and promotion procedures  Higher **wages** costs if less than minimum wage  Higher **costs** from giving paid holidays, pension contributions (car companies in the USA pay huge pension costs)  **Employing** more staff to avoid overlong hours for existing workers  Protective **clothing** and **equipment** to meet health & safety laws  ***Multinationals who operate in countries with few legal constraints will enjoy lower production costs*** | Workers feel more **secure** and more **valued** if they are offered a clear and **fair** employment contract – motivated, hard working, satisfied.  **Lower** labour turnover – save on recruiting costs  **Reduce** risks of accidents and therefore **time** off work for ill health or injury (avoid lost production, sick pay etc.)  Avoid expensive **court** cases and heavy **fines**  **High profile** – good employers attract the best candidates and keep the best staff; positive publicity and marketing  **Positive** stakeholder perceptions |
| Written **contract** of employment must be signed – pay, working conditions and disciplinary procedures | **Protect workers** from discomfort and physical injury at work |
| **Minimum ages** of which young people can be employed  **Maximum** working week (E.U.)  **Minimum wages**  **Pensions** entitlements | **Healthy work environment** – safety equipment; washing & toilet facilities; protection from dangerous machinery and materials; adequate breaks and temperatures |
| **Discrimination** against people – recruitment and selection based on race, colour, religion, age and even pregnancy | ***Both of columns has an effect on the location decisions for European countries and MNCs*** |
| **Termination** of employment – unfair dismissal tribunals |

***The law and consumer rights***

Do **consumers** need **protection** from business actions? Why?

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1. AN individual consumer is relatively **weak** and **powerless** against a large business:
   * consumers are **easily** influenced by marketing
2. Products have become more **scientific** and **technological**:
   * consumers **struggle to understand** them and assess **claims** being made for them
3. **Selling techniques** are increasingly pressurised:
   * Consumers find it hard to **resist** – i.e. *cheap loans and consumer credit* which are often not **understood** fully by consumers (calculating APR for example). Consumers may commit to paying off debts for years at **high interest** rates
4. **Globalised** marketplace leading to **increases** in **i\_\_\_\_\_\_\_\_\_\_ goods**:
   * Consumers need **protection** from producers of goods with different standards from domestic producers (toys etc.)
5. **Increased** competition: firms **‘cutting corners’** to get people to buy under the **‘best deal’**. Reducing quality, guarantee periods, mislabelling and generally taking advantage of the consumer. **Protection laws** for these typically include (UK example)
   * *Sale of Goods Acts*
   * *Trade Descriptions Act*
   * *Consumer Protection Act*
   * Other laws govern **weights** and **measures**, consumer **credit regulations**, safety and preparation of food products

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| Business **costs** might have to rise to meet the requirements of consumer regulation:   * *Redesigning products to meet H&S regulation* * *Redesigning advertisement* * *Quality control* * *Consumer response (customer service)* * *Strategy to put the consumer first* |

***Consumer focused strategies*** *and* ***firms*** *have experienced success through good publicity, customer loyalty and trust, which turn out to* ***increase******profits*** *in the long term – consider Starbucks*

**Monopolies:**

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Most monopolies are created by **mergers** or **takeovers** so government action can be directed towards them. A country’s competition commission can investigate the deal or alleged abuse of market power. The goal is to establish whether consumer interest will suffer or are suffering. The OFT in the UK can prevent a merger/takeover or insist that unfair practices are stopped.

**How do monopolies develop?**

* ***Patents*** *of new products or processes*
* ***Merger*** *or* ***takeover***
* *Legal* ***protection*** *(i.e. government postal service)*
* ***‘Barriers to entry’*** *(oil industry for example)*

**How** are consumers affected?

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| ***Positively*** | ***Negatively*** |
| Lower prices if economies of scale are passed on  Technical advances due to monopoly profits | Potential higher prices  Limited choice of products  Complacency leading less investment and competition  No incentive for firm to lower costs and improve efficiency |

**Uncompetitive - or restrictive – practices**

Firms **interfering** with **free market forces** – limiting choices and driving up prices. Government seeks to stop this

1. ***Manufacturer determination to set the price to the retailer***

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| ***Levis jeans in the UK*** |

1. ***Full-line forcing***
2. ***Cartels: price-fixing***

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| ***Mobile phone companies in many countries*** |

1. ***Predatory pricing***

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| ***Airline industry*** |

***Worksheet summary quiz and activity:***

1. **‘Buyer beware’**: A consumer should always take care when purchasing. **Explain** how this isn’t always possible and why the consumer laws exist.

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1. Working **with** stakeholders **regarding** the law can have a **positive** outcome. How?

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**Summary of the worksheet in your own words (in English and Chinese):**

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*Vocabulary check:*

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| **English** | **Chinese** |
| **Vicarious** |  |
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