

1.1: Why Should I Care About The Law?

Introduction

If you are like a number of undergraduate business students, you might initially see a “law class” as just another course you have to take because it is required for your major. You might be thinking, “I’m going into the business world, not the law,” or “We don’t really need to know this because we can leave the law to the lawyers.” But that mindset presents a couple of practical problems. First, the law is an integral component of most business decisions. Whether planning or executing business decisions—or responding to those of others—some aspect of the law tends to be a factor necessary to sound decision-making. Second, businesses cannot simply “leave the law to the lawyers” because a lawyer cannot be with every decision-maker all the time. (Of course, no one would want that.)

Certainly, this class is not a law school course, and it is not about turning students into lawyers. On the other hand, this class may feel like a mini-law school course because *how lawyers think and how adept business professionals need to think* are more similar than many people might believe. In fact, there is an entire book written about it: *Think Like a Lawyer: Legal Reasoning for Law Students and Business Professionals*.^[1]

The significance of legal thinking in business activities and relations cannot be overstated because legal risk plays a substantial role in a business’s bottom line.^[2] Referring to undergraduate students, [Professor Jooho Lee](#) of Pepperdine University’s business school advised that:

[L]egal reasoning skills improve their ability to identify and isolate relevant information from irrelevant information, think comprehensively, and communicate their ideas clearly and concisely. These skills are important not only for business but also for good citizenship and a flourishing life.^[3]

Of course, professors typically have some bias of about the importance of their courses, so, let’s hear from the professionals. In a risk management study, C-level executives (CEOs, CFOs, etc.) across nine industries and 446 organizations ranked *Legal Risks* as their *top external pressure*.^[4]

In a recent Travelers Business Risk Index survey of more than 1,200 business risk managers, only two categories were among the top ten risks in every industry: legal liability and medical cost inflation. Another category of legal risk, complying with laws, was in the top ten for nine of the ten industries studied.^[5]

The key role that legal considerations play in management is further demonstrated in a survey of over 900 senior managers and executives attending executive programs at the University of Michigan, which showed that they took more sessions on law than any other, aside from Organizational Behavior and Finance.^[6] (Presumably, they did not take the legal sessions for amusement but instead for their added value.)

Legal concerns do not just affect senior management and executives; they are also inherent in other decision-making roles. For example:

A recent Corporate Executive Board Legal Leadership Council survey concluded that middle managers make 75 percent of legal decisions and that almost 80 percent of corporate employees made a decision or completed an activity with a significant legal implication in the past year. These middle-management decisions involved, for example, signing contracts, developing new products, creating intellectual property, interacting with government officials, entering new markets, creating marketing materials, establishing product safety standards, and executing acquisition agreements. Fewer than one-third of these middle managers consulted the legal department when making their decisions. In other words, they relied on their own knowledge of the law when making everyday business decisions, which are usually intertwined with legal concerns.^[7]

Understanding the rules allows managers to compete in competitive markets and to make judgments about political and business risks.^[8] Law can be used in ways to allow managers to compete. A common perspective is a perception that risk management helps prevent losses: “We can do this, but we can’t do that.” However, while understanding the law helps mitigate losses, managers also need to see managing legal risk as a way to create business opportunities and value.

Leaders create opportunity and value by being legally shrewd.

Managers need to “possess legal astuteness and regard the law as a key enabler of value creation.”^[9] Ultimately, managers who can bridge business strategy and the law give businesses opportunities to create a competitive advantage in the market. This advantage results from being educated about the law and understanding how the law ought to factor in strategic decision-making.

Decision-making is one of a manager’s four major roles.^[10] Drilling down, managers play four basic decision-making roles: Entrepreneur, resource allocator, disturbance handler, and negotiator.^[11] Legal issues pervade entrepreneurial and resource allocation activities because they deal with issues like developing projects, departmental reorganizations, developing marketing plans, entrusting others with executing strategies and decisions, public relations, mergers and acquisitions, and more.^[12]

As negotiators, managers spend substantial time working on contractual relationships and committing resources to them.^[13] As disturbance handlers, managers involuntarily address circumstances beyond their control, rapidly developing pressures of situations that “are too severe to be ignored,” such as suppliers breaching contracts.^[14] Other examples include reports of discriminatory termination, sexual harassment, and injuries caused by employees, and communications with legal counsel and stakeholders.^[15]

Moreover, those starting businesses make decisions about:

- the legal form of their business;
- government regulations that govern how they develop and market products and services;
- liability risks in manufacturing and selling their products;
- protection of their intellectual property;
- the nature of their contracts with customers and suppliers;
- legal considerations relating to financing the business; and
- the law that governs hiring employees.^[16]

Therefore, Ladwig & Siedel identify *seven management skills that are critical for business success*:

1. The ability to recognize legal issues that arise daily;
2. The ability to decide which legal issues require seeking legal advice;
3. The ability to communicate effectively with legal advisors;
4. The ability to evaluate legal advice;
5. The ability to implement legal decisions;
6. The ability to discuss legal issues with stakeholders; and
7. The ability to lead by highlighting the legal responsibilities of those within the organization.^[17]

The goal of this introduction to the law is to help build a foundation on which these seven skills can grow.

Notes

1. (Boldface added.) Fruehwald, E. S. (2020). *Think like a lawyer: Legal reasoning for law students and business professionals* (2nd ed.). Amazon Digital Services LLC. (Note: Readers can access the first edition of this book for free at the [Internet Archive](#).)
2. Siedel, G. J. (2017, March 15). *Law and the business school curriculum*. AACSB International.
3. *Learning business law: 8 things students should know before entering the workforce*. (2023, November 21). Stukent.
4. Accenture. (2013). *Global risk management study: risk management for an era of greater uncertainty*.
5. See note 2.
6. Ladwig, C., & Siedel, G. (2020). *Strategy, Law and Ethics for Business Decisions*. West Academic.
7. See note 2.
8. Hotchkiss, C. (1994). *International Law for Business*. McGraw-Hill.
9. See note 6.
10. Mintzberg, H. (1990). *The manager’s job: Folklore and fact*. Harvard Business Review.

11. See note 11.
12. Ladwig & Seidel, *supra*; Mintzberg, *supra*.
13. See note 11.
14. See note 11.
15. See note 13.
16. See note 6.
17. See note 6.

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