

Small Business Insights

Protecting Your Business From Lawsuits



Provided by: SCS Agency Inc

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Small businesses in all industries face the potential of lawsuits. These disputes can require substantial money, time and effort, and they can damage a company's reputation, regardless of the case's merits or outcome. Considering these ramifications, it is vital for business leaders to take steps to limit the probability of lawsuits being filed and to have measures in place to address them if they arise.

The following are methods that small businesses can implement to mitigate the occurrence and impacts of lawsuits:

Select a Proper Business Structure

How a business is formed can alleviate several lawsuit risks; different business structures offer various liability protections. For example, when a business is structured as a limited liability corporation, or LLC, it becomes a separate legal entity. This means a small business owner can generally protect personal assets from being seized due to litigation involving their company. No matter an organization's structure, it is essential to keep personal and business finances separate.

Lawsuits can affect a small business's finances and reputation, so business leaders need to be proactive to mitigate these risks.



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Hire Experienced Legal Counsel

Having a skilled attorney on retainer can enable small business owners to navigate legal issues and prevent matters from proceeding to litigation. Finding a suitable business lawyer often involves diligent research and using a state bar association referral program or relying on other business owners who can share recommendations of reputable law firms.

Implement Strong Contracts and Agreements

Clearly written contracts can reduce potential lawsuits alleging a failure to fulfill an agreement. All agreements should be in writing, and legal professionals should review them before business owners sign them. This can lessen the chances of errors or ambiguities leading to disputes.

Maintain Detailed Records

Small business owners should maintain extensive records, including financial and tax records, employee records, and customer and vendor interactions. These records can provide evidence that may resolve disputes before litigation is necessary.

Conduct Risk Assessments and Emphasize Safety

Performing regular risk assessments and ensuring any issues are immediately addressed can help reduce injuries to employees, clients and other visitors. Premises, products, services and automobiles should all be routinely checked for safety issues, and safety devices—including smoke alarms and fire extinguishers—should be regularly maintained and in working order.

Develop and Enforce Company Policies

Ensuring comprehensive company policies exist and that they are effectively communicated, readily accessible and regularly enforced helps prevent lawsuits. Topics covered in these policies should include ethical hiring practices; antidiscrimination, anti-violence and anti-harassment policies; and workplace safety protocols.

Train Employees Regularly

Routinely educating and training employees on company policies and procedures, legal compliance and customer service best practices can reduce the likelihood of lawsuits, as it reinforces workplace expectations. Employees should also be encouraged to ask questions and report issues.

Practice Ethical Business Conduct

All shareholders and employees should perform their business activities ethically to avoid allegations of improper conduct. They should treat co-workers, customers and partners respectfully and fulfill contractual obligations. They should also avoid conflicts of interest.

Communicate

Proper internal and external communication with interested parties (e.g., clients, employees, shareholders) may resolve conflicts before they lead to lawsuits. Transparent and open communications can alleviate concerns, and providing opportunities to discuss issues can help fix them.



Stay Informed on Legal Requirements

A thorough knowledge of applicable legal requirements, including industry-specific regulations, employment laws and data privacy laws, can help ensure compliance with them. For example, small businesses need to make certain their premises meet the requirements of the Americans with Disabilities Act and that they have all necessary licenses and permits. Working with legal professionals who provide timely updates to changes in these areas allows business leaders to stay informed of regulatory developments.

Implement Strong Data Protection Measures

Data breaches and cyberattacks are significant causes of lawsuits. Implementing cybersecurity best practices and maintaining good cyber hygiene (e.g., requiring strong passwords, using multifactor authentication and access controls, backing up data and regularly updating and patching software) can mitigate cyber risks.

Obtain Comprehensive Business Insurance

Securing insurance that addresses a business's risks can act as a financial safeguard if a lawsuit arises. Common coverage to consider includes general liability insurance, auto liability insurance and professional liability insurance. These policies can provide financial protection by paying for legal fees, settlements and judgments. Business leaders should work with insurance professionals who can provide information on available industry-specific policies and offer guidance on selecting insurance that best fits a business's needs.

Conclusion

Small business owners can implement several measures to mitigate the risks of lawsuits, protecting their employees and clients as well as their finances and reputations. By being proactive, small business leaders can be positioned to avoid lawsuits altogether and effectively address them if they do arise.

Contact us today for more information on small business risk management.

A 2023 report from the U.S. Chamber of Commerce Institute for Legal Reform found that small business were responsible for 48%, or \$160 billion, of the costs of the commercial tort system.

