It has been our observation that well-managed small businesses have certain common characteristics. We want to list many of these factors as a checklist for our business clients to refer to if they feel it is necessary for their business. Those enterprises that pay attention to the following seem to have the fewest legal problems, are able to devote attention to making their business grow, and enjoy financial success.

✓ They have both their receivables and payables under control.

Many times when we are brought in to work with companies in financial distress, the collection of accounts receivables is the single biggest problem. An attitude that “my customers are slow in paying me and therefore I’ll take my time to pay my bills” is easy to develop, but frequently proves fatal to a business. If you are not already doing so, take the time to pay attention to measures that can increase the rate that you collect your receivables. Institute credit applications for the purpose of collection information and ask customers to renew them periodically. Obtain a written personal guarantee on all accounts in corporate name. Paying attention to this issue in good times helps companies survive recessions because they are prepared.

✓ They have a written policy manual for their employees.

The advantage of a written policy and procedure manual for employees is that everyone’s expectations are fixed, both employer and employee. When a situation arises concerning holidays, funeral leave, personal time off, overtime or the like, either side can just refer to the manual for the answer without every situation becoming a separate negotiation. A proper policy manual contains a provision that employees remain “employees at will” despite the terms of the manual, and further that the employer has the right to amend the manual at any time deemed necessary.

✓ Their form of doing business makes sense and the owners observe all legal requirements of the form they have chosen.

Not so long ago, the choices of a form to do business were simple: sole proprietorship, partnership, or corporation. Now we have limited liability companies and limited liability partnerships as additional
choices, each having different advantages regarding two main factors for selection of a form of business: tax treatment and limitation of liability. Having chosen a form that makes sense, well run companies observe the formal requirements that state law and IRS regulations require, such as proper identification and an up-to-date minute book.

✓ They have a plan of succession to ensure the business will continue even if the current owner doesn’t.

No one likes to think about contingencies such as disability or death. However, today the drive to have a plan of succession to ensure the business will continue despite those developments often comes from employees and even customers. The plan to have a continuation scenario can take the form of a Buy-Sell plan among owners, a stock option plan involving employees, or a well thought-out trust or will of the owner. Having a plan of succession encourages a commitment from employees and peace of mind to owners and their families.

✓ They develop a proper sense of when to involve their attorney.

Well run companies develop a skill of how to use professional advice. Surely to involve an attorney or accountant in every decision would be costly and time-consuming and is not advised. However, a good “sixth sense” should be developed to use legal advice to prevent problems before they start, or before they grow into significant problems. Good business managers know how to involve an attorney prior to disputes arising into lawsuits. The focus of attorney and client should be on timely prevention of problems.

* This list is by no means complete, but is offered as a suggestion of things business managers have within their control that can enhance their prospects for success. We have worked with our clients in all of the above areas and are capable of providing any assistance needed.