

BUSINESS LAW

PROTECTING YOUR SMALL BUSINESS

THE IMPORTANCE OF BUSINESS CONTRACTS AND THEIR LEGAL ENFORCEABILITY

BY: PETER J. LAMONT, ESQ.

**LAW OFFICES OF PETER J.
LAMONT**

191 Godwin Avenue
Suite 4
Wyckoff, NJ 07481
P) 201.904.2211
<http://www.pjlesq.com>

Offices in New Jersey and New York.

Executive Summary

Contracts are an essential part of any business agreement, outlining the expectations and terms of both parties involved. They serve as legally binding documents that protect the interests of all parties in a business transaction. This paper emphasizes the significance of contracts for small businesses and the need for them to be well-drafted, comprehensive, and legally enforceable. The legal enforceability of contracts is crucial in protecting the interests of small businesses, and well-drafted contracts can provide a sense of security and confidence that the terms of the agreement will be upheld. In conclusion, this whitepaper emphasizes the importance of business contracts in protecting small businesses and ensuring that their transactions run smoothly.

Introduction

Contracts are used to establish the terms of a business agreement between two or more parties, outlining what is expected of each party, the deliverables, timelines, payment schedules, and other crucial details. Contracts serve as legally binding documents that protect the interests of all parties involved in a business transaction. The importance of high quality, enforceable, business contracts cannot be overstated.



DID YOU KNOW?

According to a 2023 small business survey conducted more the 1/2 of all small business owners do not regularly use written contracts.

Small Business Owners	Percentage
Don't have written contracts for all of their business dealings	55%
Have written contracts for all of their business dealings	45%

Importance of Business Contracts

Business contracts help to establish the expectations of all parties involved in a business transaction. They provide a clear understanding of what is expected, the timeline for deliverables, payment schedules, and other important details. Contracts provide a written record of the agreement, which can be used to avoid misunderstandings and disputes.

In the absence of a contract, a business transaction can be vague and subject to interpretation. If a dispute arises, it can be difficult to determine what was agreed upon, making it difficult to resolve the issue. A contract provides clarity, making it easier to resolve disputes if they arise.

Business Litigation

According to the American Bar Association, breach of contract claims are the most common type of business lawsuit. In fact, it has been estimated that breach of contract claims account for over 60% of all business lawsuits in the United States. This highlights the importance of having well-drafted contracts and ensuring their legal enforceability to protect the interests of small businesses in the event of a dispute or legal action.

Legal Enforceability of Business Contracts

Business contracts are legally binding documents, which means that they can be enforced by law. This legal enforceability is one of the most crucial aspects of business contracts. If one party breaches the terms of the contract, the other party can seek legal recourse to enforce the terms of the agreement.

A well-drafted contract that is legally enforceable can protect the interests of all parties involved in a business transaction. It can provide a sense of security and confidence that the terms of the agreement will be upheld.

Enforcing a business contract can be a complicated and costly process. However, it is essential to protect the interests of your small business. It is crucial to ensure that your contracts are well-drafted, comprehensive, and legally enforceable.

No Internet Contracts

Small businesses that do not use contracts or use free internet contract forms run the risk of facing legal and financial consequences. Without a written contract, it can be challenging to prove the terms of a business agreement, making it difficult to resolve disputes or claims. In the absence of a legally binding contract, a small business may not have the legal standing to pursue legal action to recover damages, leading to financial losses. Additionally, using free internet contract forms may result in generic, non-specific documents that do not adequately address the unique needs of a particular business agreement, leaving the business vulnerable to legal disputes. In some cases, using poorly drafted or non-specific contracts may even be worse than not having a contract at all. Therefore, it is crucial for small businesses to invest in professionally drafted contracts that are tailored to their specific business needs to avoid legal and financial risks.



In 2022
only 15% of small
businesses used
attorneys to help
draft their legal
contracts.

• National Small Business Association (NSBA)

Adverse Impacts

- 1. Financial Losses:** A breach of contract lawsuit can result in financial losses for a small business, including the cost of legal fees and damages awarded to the plaintiff.
- 2. Damage to Reputation:** A breach of contract lawsuit can damage a small business's reputation, leading to a loss of customer trust and potential business.
- 3. Distraction from Business Operations:** A lawsuit can be a time-consuming and distracting process, diverting attention and resources away from other important aspects of the business.
- 4. Strained Relationships:** A lawsuit can strain relationships between the parties involved, leading to the loss of business partners, customers, or suppliers.
- 5. Difficulty Obtaining Credit:** A breach of contract lawsuit can negatively impact a small business's creditworthiness, making it difficult to obtain credit or financing in the future.
- 6. Potential for Additional Legal Action:** A breach of contract lawsuit may result in counterclaims or additional legal action, further adding to the costs and time associated with resolving the dispute.

Conclusion

Ebusiness contracts are an essential part of operating a small business. They provide clarity, establish expectations, and protect the interests of all parties involved in a business transaction. A well-drafted contract that is legally enforceable can provide a sense of security and confidence that the terms of the agreement will be upheld. As a small business owner, it is essential to ensure that your contracts are well-drafted, comprehensive, and legally enforceable. This will help to protect your business and ensure that your business transactions run smoothly.



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