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Helping business owners manage risk

Written by Rona Birenbaum, financial planner, Caring For Clients on Wednesday, April 6th, 2011 at 1:12 pm

One of the most successful business owners in history, John D. Rockefeller said it best:

"I want to own nothing, but control everything."

Business owners face a multitude of risks, but the one that Rockefeller was probably referring to was litigation risk. He knew that a business owner can end up losing their personal assets in order to fulfill their obligations as a business owner.

Today's business owners should take a page from Mr. Rockefeller's book when they structure their businesses.

You can add value as an advisor by reviewing how your clients have structured their business. For example, a common mistake for family-owned businesses is to appoint family members as directors even if they are not involved in the business. The family members feel included and important. The downside is that as directors of the corporation, they can all become unwittingly personally liable for unpaid corporate taxes and potential corporate liabilities.

Getting good legal advice is a key to minimizing liability. Toronto corporate and estate lawyer, Albert Luk explains: "Most people want to accumulate assets in life. While this may be an ideal goal for employed people, an accumulation of assets may not be an ideal risk management strategy for business owners. For advisors, it is not necessary to become legal beagles. Rather, they should be aware that what works for many clients–accumulating everything in their name–may not or should not be the standard strategy for owner-manager clients."

For example, prudent owner-managers will avoid taking title to their principal residence in their personal name. In the event they have to personally guarantee the business' liabilities, they can take comfort in knowing their shelter will be protected.

Other successful owner-managers take Rockefeller's advice to heart by creating holding corporations or subsidiaries to hold cash and valuable assets. In this manner, key business assets are generally protected from predatory litigation.

Basic risk management for owner-manager clients involves reviewing how the client holds their personal and business assets, what type of business structures the client is employing to operate the business and what types of contracts and insurance are in place to protect the business.

It is not necessary to be a lawyer or commercial insurance expert. Instead, the value-add to your clients is that you are aware that there are additional risk management factors to consider and you at least recognize the need for your client to adjust their strategies and/or seek additional counsel.

By simply being aware that risk is present, if not necessarily near, you can help your business owner clients manage their risk and differentiate yourself from your peers.