

Minimising human capital risk when buying a business

Buying a business in NZ? Chances are you'll be buying a Small to Medium Enterprise - a business with between 3 and 50 employees and a turnover of \$250,000 to \$10,000,000.

One of the most substantial risks facing SMEs is the loss of key people. A profitable, solvent business can quickly begin sinking if key human assets jump ship. Minimise your human capital risk at the outset by undertaking and implementing prudent risk management processes.

Things to consider:

- 1. Shareholder purchase and sell agreements.** If you are buying a business with other investors make sure you seek legal advice on your shareholders agreements for the buy and sell of shares following major events such as death or serious incapacity.
- 2. Key person risk.** As a new owner, you may not be the 'key person' on day one. Establish who has the expertise or business knowledge that is vital to your business' success as a part of due diligence. Who does the business rely on? What is the current process for managing human capital risk?
- 3. Business debt.** Bank funding for the purchase of a business might require you to personally guarantee, offering your personal assets as security against a loan. You may also need to guarantee leases and supply agreements. Carefully consider what you are agreeing to.

Insurance factors. Unfortunately, you can't buy insurance to protect against business failure from bad decisions or poor management but you can protect against serious events affecting key people that could cause the business to fail and you to default on your debt.

When purchasing a business, it pays to engage a human capital risk specialist and implement a robust key person analysis process. This will enable you to understand how and why a business is vulnerable and the potential financial risks of not acting in advance, while enabling you to minimise risks and make informed decisions going forward. Check out www.triplejump.co.nz - a reputable specialist risk management company.