

Small Tech Firms at Risk in Down Economy

Just like companies in many other industries, tech firms face heightened financial risks during an economic downturn. Failure to follow good risk management practices and sidestepping prudent business procedures can leave a tech company with greater exposure to a professional liability lawsuit.

Financially stressed customers often drive these types of shortcuts as they become dependent upon technology solutions to improve operations, increase revenue, and/or reduce expenses. As margins shrink for these customers, the successful implementation of technology solutions becomes critical to their survival and the costs associated with such solutions are more heavily scrutinized. This not only raises the stakes for a tech firm to ensure the technology meets expectations but also to deliver the technology on time and within budget.

The additional pressure caused by financial conditions can lead customers and tech firms to rush projects through the process and make modifications on the run. This tends to compromise the normal quality and documentation practices that are established to ensure the successful implementation of deployed technology solutions. Unfortunately, these pressures to implement technology solutions as quickly as possible often lead to escalating project costs and, more importantly, failure to meet the customer's expectations. While the customer may drive the decision to hasten the development and implementation process, it is frequently the tech firm that becomes responsible for the problems that result. Especially during economically stressful times, these problems can reduce or possibly eliminate the benefit of the project to the customer and as a result, the customer pursues legal action against the tech firm for lost revenues, cost savings, as well as, a long laundry list of other incurred expenses.

To protect against these types of lawsuits, good project management and documentation is essential. Unless best practices are in place and followed, a software client and the developer can have a general idea about a project, what it should accomplish and what it should cost. But often, this general idea is not adequately documented and the client's expectations for the project are not aligned with what the tech firm is attempting to deliver. This divergence in expectations creates a lack of understanding of the project's functionality, time and cost. The result? Delays, customer disappointment with project capabilities, and/or disputed bills that can lead to a legal action against the tech firm.

This is just one of many risks faced by tech firms in today's challenging business environment. That's why tech firms should talk to their insurance agent to help ensure they have the right coverage in place to respond to these and other unique exposures faced by the tech industry.

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