

How contract breaches affect businesses

[Law](#), [Contract Law](#)



A contract is an agreement between two parties, each agreeing to do or forbear from doing something. A contract, if properly formed, is legally binding and all parties to a contract are required to perform their respective obligations under the contract, failing which legal action can be taken. A failure or refusal to perform one's obligations under the contract will be called a "breach" of the contract. Contract breaches have wide ranging consequences both legal and practical to the parties to the contract.

This article will address the various effects that contract breaches will have on businesses. Some of them are set out below:- (a) Injury to reputation - It is not good for a business' reputation if word gets out that they have not honored their part of the contract. Other companies will be reluctant to do business with an entity which has previously defaulted on other contracts, especially when the default can be seen to be intentional or as part of a sharp business practice.

The injury to reputation can be incalculable and can have long lasting effects on the company getting new business. (b) Events of default - Sometimes breaching a contract, especially if it involves payment of money, can expose you to legal action including insolvency proceedings. These will often trigger the "event of default" clause in a lot of commercial contracts, especially those involving financial institutions. This will of course have dire consequences and can affect the smooth operation of one's business in the event an "event of default" clause is triggered.

This of course goes without saying. (c) Legal fees - Breaches of contract, if serious enough, will often lead to litigation and dispute. It is no secret that legal fees can be exorbitant especially when the subject matter at stake runs

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into the millions. It is therefore important for all parties to involve to think carefully and try to avoid breaches of contract as the price you will pay to remedy the situation will far outweigh any good you can possibly receive from an intentional breach.

d) Damage to relationship - It goes without saying that a breach of contract, especially intentional, will sour the relationship between the contracting parties. As it is often said, you should never burn your bridges and having a bad relationship with a commercial partner will not do well for one's business and should be avoided at all costs. At the end of the day it is common knowledge that contract breaches bring nothing but negative consequences, and as far as possible, parties should try to stick to their contract obligations to the best of their ability.