WHY BUSINESS PARTNERSHIPS GO BAD

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A company with a good product or service — even a great one — can rarely overcome business partners at war. You could even have that proverbial business with the "better mousetrap." But if you and your partners are slashing at each others' throats, your business is likely a goner. Running a business with the right ownership team is critical to your long-term success. And teaming up with the wrong partner is an invitation to disaster.

Marriage vs. One-Night Stand: First and foremost, pick your partners for the long haul. Each partner needs to make a continuing, valuable contribution to the business. Otherwise, resentment builds up between those who are carrying their weight and others who aren't. Sometimes business people team up with someone for a long-term venture based primarily on a short-term need. For example, they might partner with a software programmer to satisfy an immediate need — such as creating software or a website that is critical to launching the business. After the initial, albeit vital, need passes, you have one partner who potentially is sharing in the benefits, but not the workload, of the business. Instead of getting "married," the company should have hired the programmer on a short-term basis.

Share the Work; Share the Wealth: In a particularly disastrous case, one partner put up substantial start-up cash. The second partner had the skills and performed the day-to-day management and production. Both agreed to a 50-50 split of the business because neither could start nor succeed in this business without the other. However, despite discussing this very issue from the outset, the working partner steadily grew more resentful of the money partner. Soon, the working partner started stealing from what was otherwise a successful business and bankrupted the company.

Know Thy Partner: Do your due diligence. All too often, partners ultimately discover things about each other that they should have known before they went into business — info that would have stopped them from ever teaming up in the first place. Imagine the sinking feeling of the partner who found out that another owner was broke and had been using company cash to pay personal bills. That incident killed the trust among the partners, and the insolvent owner's ongoing lack of funds created constant friction. Eventually, the partners ended up in litigation.

You Get What You See: Don't count on people changing. Ninety-nine out of 100 people never really change, and the 100th person probably won't either. You get what you see — so keep your eyes open. Despite that fact, one company founder picked two partners who he hoped would mature into responsible contributors to what could have been a very successful business. No such luck. The duo was deadweight. They stayed lazy, misguided and petulant throughout the company's various struggles. The founder finally had to shut down the business. Don't confuse hopes with facts.

Control Freaks: Watch out when too many people want control. Look in the mirror. If you can't share power, don't go into business with people who want it, too. If you're a "control freak," team up with people who are happy to just do their jobs and don't need to be in charge. One business had multiple controlling partners who were constantly paralyzed by debates over every decision. They could hardly change the toilet paper without bringing in United Nations mediators to referee the debate. Needless to say, the partners never addressed the truly significant problems facing the business — and it repeatedly drove away talented staff.

Shared Goals: No one partner should be able to succeed when others are failing. For example, some businesses are formed with the understanding that one owner will earn special fees, such as a management fee. In good times, these special fees may not be a big problem. But what happens when times are tough and the business is losing money? Similarly, some people want money in their pockets

right away and others want to plow profits back into the business to maintain "rainy day" reserves. Discuss all of these issues in advance. Sometimes, these discussions produce compromises. Other times, they reveal true incompatibility.

Reporting and Accountability: President Reagan said, "Trust, but verify." I say, "Verify." Every business should have a reporting system that lets all of the partners monitor each others' major tasks. It helps nip problems in the bud. If no one is watching, people are more likely to stray, perform poorly or, worse, cheat their partners.

SUCCESSFUL PARTNERSHIPS

Aside from these clear "don'ts," there are some reliable "dos" that contribute to successful partnerships:

Complementary Skills: Companies are more likely to succeed when many of the partners have different skills and each appreciates the skills that other owners bring to the table. It fosters both appreciation and a healthy dependency on each other.

Power Allocation: There is no fighting over power. Either the partners are good at sharing power, or one person is clearly in charge. Surprisingly, the benevolent dictator model – where one partner is in charge but has the good sense to use power wisely – is often extremely successful.

Integrity and Trust: When one partner acts, the reaction of the other partners should be support – not second-guessing.

Leave Room for Growth: When establishing your company, discuss the expectation that you may need additional partners down the road that bring additional skills as you get bigger. This may mean you reserve ownership interests in the company for future partners.

Have a Pre-Nup: Draft an agreement among the owners that says what happens in a variety of situations, including when and if things go bad. Don't wait for problems and then make lawyers rich in a costly battle. This prenup — often referred to as a Buy-Sell Agreement — minimizes the damage that can be caused by a bad partnership. Remarkably, in the process of creating the prenup, partners often learn a lot about their compatibility. They learn how each other thinks and what they expect from the business. Some people halt the entire process – saving a small fortune and countless hours of frustration — when the process reveals a mismatch.

Business is tough, as recent history has proven once again. It's much too tough to be fighting with your partners. Pick well.

ABOUT JACK GARSON

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Jack Garson's practice focuses on Real Estate, Construction and Business law. He serves as a legal advisor for numerous local, regional and national companies. In his role as legal counsel, Jack also serves as a strategic advisor and lead negotiator. Further, Jack provides guidance on the structure of complex transactions, the resolution of business disputes, the growth and sale of companies, and the management of issues such as liability and risk reduction, employment practices, and enhancing profitability.

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In the past two years, we've grown by 50% through expansions in New York City and, most recently, Charlotte, North Carolina. This growth has provided immense value to our clients and attorneys.

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