

Having a Successful Partnership

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Want a business partner? Lay the ground rules up front.

Owning a business is something many people dream of, but making that dream come true single-handedly is another matter entirely. It's for that reason that many businesses begin as partnerships.

After all, one of the biggest hurdles to getting into business is the start-up equity required. The average person, working at a job with standard wages, supporting a family and paying down a house mortgage, just doesn't have much money to invest. A natural next step is to get some friends or colleagues together to pool enough money to start the business, often with some additional help from family and the bank.

Another incentive to form a partnership is the sharing of knowledge and skills necessary to successfully run a business, including sales and marketing, manufacturing and processing, administration and accounting, and so on. Once you've identified the key skills needed and the financial resources required, it often seems that establishing a partnership is the best way to go.

Unfortunately, the reality isn't quite so rosy. Our experience as business intermediaries, facilitating the sale of a business, is that the life expectancy of a typical partnership is less than seven years. In fact, the majority seem to fail in about half that time.

Generally, there are three main reasons why partnerships break up:

- Failure to establish clear lines of accountability/authority.
- An inability to successfully monitor, measure and reward the results expected/needed from each of the partners.
- Lack of communication between the partners.

First, issues relating to responsibility and authority are a common stumbling ground because not enough planning or thought has been invested up front into deciding who does what, when, where, how and why, and under what circumstances.

Who can make decisions that bind the company? What needs to be discussed with all the partners before decisions are made? What happens when people are sick or away on vacation? What happens if the partners don't agree on a course of action? It is well worth the time and effort, when a partnership is formed, to have thought these issues through.

There should be some documentation to confirm your decisions, as well as a signed partnership agreement that spells out what happens if one partner wants to bow out or if the business fails.

Next is the issue of results. One of the issues we hear most often in partnership disputes is, "I do all the work and my partner is just coasting." Interestingly, we often hear this complaint either when the business is extraordinarily profitable or is losing money.

Again, identifying expectations up front can help to prevent this problem, or at least help to address it if it arises. Define in advance what each partner is responsible for, what results are expected, and how the results will be measured. It can be helpful to have a third party, for example, a business consultant, assist you in this process.

Finally, we come to communication. On this one, we are going to sound like a marriage counsellor. Partnerships in business, just like partnerships in life, will falter if there isn't good communication.

We have found that many business partnership troubles stem from emotional responses to situations and aren't fully understood by all parties because everyone is too busy doing his or her own work to have a handle on each situation.

In other words, we are talking about misunderstandings.

We always recommend that a weekly time be set aside for a partners' meeting, with the issues that arise during the week on the agenda.

Of course, urgent matters must be dealt with as they arise, but so often it's the small festering issues that destroy partnerships if they're not dealt with.

This weekly meeting can be either formal or casual, but it helps to have it on Friday so that the events of the week can be reviewed, and the air cleared before another week begins.

There should always be a written agenda and the partners can add to the agenda at any time during the week, right up to the meeting.

Just having a regularly scheduled meeting can help to defuse emotions - people know they'll have a chance to raise issues within a matter of days, and often by the time the meeting is held, people have cooled off and can discuss and resolve things more effectively.

Another strategy we often recommend to partnerships is that they should have a business adviser or two - external to the company - who can provide counsel and even help mediate problems. An external perspective is often helpful for partners who are sometimes too close to the forest to see the trees.

Business partnerships can be a tremendous source of support, as opposed to owning a business single-handedly, shouldering all of the responsibilities and making all the tough decisions on your own.

Just remember that the key to creating a successful partnership is to lay the ground rules before you start.

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