

Is a Partnership Right for You

Taking on a partner is a decision that requires a lot of work and due diligence on your part. Partnerships are not for everyone. They can be rewarding and hugely successful. However, if not well thought out and planned, they can destroy your business. Following is a list of guidelines that may help you to work through the process.

The first question to ask yourself is: What objectives do you hope to achieve by entering into a partnership? Do you want to infuse money into the business or are you looking for skills that you do not possess? Defining your needs is critical.

These Questions Should Also Be Asked

- Can you work well with someone else or do you feel that you always have to be completely in charge? If you agree with the latter, maybe a partnership is not right for you.
- Do you know your potential partner well?
- Do you and your partner have experience working together?
- Do you have a good fit of abilities?
- Do you have confidence in your potential partner?
- Do you communicate well with each other?
- Do your working styles complement each other?

General Guidelines For Choosing a Partner

- Choose someone with different skills than you, but with the same values as you.
- Find someone that you feel you can trust. If you have any doubts, get out of the deal.
- Any more than two people in a partnership is not a good idea.
- Don't expect to change the things that bother you about your potential partner.
- Discuss the roles to be played within the business ahead of time.
- Make sure each partner has as much to lose as the other (equal money invested, equal work put into the business.)
- Both potential partners should write down exactly what they expect out of the partnership and discuss it with each other.

Every partnership should be built on the foundation of a solid partnership agreement.

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Issues That Should Be Addressed in The Agreement:

- The name of your business.
- The type of business and purpose(s) of the partnership.
- The duration of the partnership. For example, this can be for a specific period of time, or it could be until the withdrawal, death or dissolution of a partner.
- List the amount invested by each partner. Contributions may be in the form of cash, property, services, or intellectual property. Partners do not have to make equal contributions. Contributions can be made simultaneously, or one partner's can be deferred.
- Detail the administrative responsibilities of each partner. Include the hours to be worked, skills to be contributed, vacation, sick leave, etc.
- Detail the authority of each partner. Voting power may be equal or may be based on the amount of investment or other factors. Include a provision stating how much money each partner can borrow on behalf of the partnership without the approval of other partners.
- List any restrictions on activities outside of the business. Remember that partners may be involved in other businesses.
- Detail the division of profit or loss. Regardless of the amount of capital invested, general partners must share profit or loss equally unless otherwise specified in writing. Include a provision for periodic accounting.
- Detail salaries and other compensation for each partner. Other compensation may include an expense account.
- Detail how the assets of the company will be distributed in the event the partnership is dissolved. Regardless of the amount of capital invested, general partners must distribute assets equally unless otherwise specified in writing. Make sure to trade secrets, patents, copyrights, trademarks, customer lists and the business name.
- List the provisions for dissolution of the partnership. These normally include the death or disability of a partner, but there may be other reasons specific to your business.
- Include a buy/sell clause and the method that will be used to value the business. This is critical for dealing with an unhappy partner who wants to sell out. It can prohibit the partner from selling his or her interest to a third party. It can also include a "shoot out," in which each partner sets a price at which he will buy another partner's interest or sell his own.
- List the conditions for the admission of new partners.

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- Include a clause for settling disputes. This can be through arbitration (appointing someone who is given the power to decide a dispute), mediation (involving someone who attempts to facilitate a reconciliation), or both.
- Specify how changes to the partnership agreement are to be made.
- Detail provisions for settlement in case of death or disability of a partner. This may be handled through a buy-sell agreement funded by business life insurance.

For More Information

Book: The Entrepreneur's Complete Self-Assessment Guide : How to
Accurately Determine Your Potential for Success Douglas A. Gray

Fired Up: From Corporate Kiss-Off To Entrepreneurial Kick-Off
Michael Gill
Sheila Paterson