The Potential Power--and Pitfalls--of Partnerships

This past week I talked to two different clients who were thinking about starting a new business and do it as a partnership. I will share some of the thoughts that I gave them because this is a common idea as people are looking to start a new business and may want to “have company” as they do this new venture.

First, the idea of a partnership may be appealing if you’re considering launching a small business. Unlike solo ventures where the burdens fall on a single person, partners can share responsibilities and often bring different skills and knowledge to the business. One partner may be great with numbers and planning, while the other is a whiz at marketing and sales. Combining these elements can open more doors and help the business realize more opportunities more quickly than it could with only one person involved.

However, partnerships have many potential downsides as well as benefits. For example, “Conflicts waste time and money, erode focus and strategic direction, cause emotional and financial pain and destroy businesses and reputations”, says George Gage, a business mediator and partnership expert with BMC Associates in Washington, DC. Business schools rarely teach successful partnering techniques, and without proper preparation, partnerships are often doomed, says Gage, who has worked with many warring partners.

I suggest that persons planning to go into a partnership should be willing to sit down and plan this arrangement carefully. The main reason is that like proprietorships, the law does not distinguish between the business and its owners. One may be placing personal assets at risk while taking on the potential liability for the other partner’s actions. Therefore, I strongly recommend that the partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership, how partners can be bought out, and what steps will be taken to dissolve the partnership when needed.

Gage, who is also author of The Partnership Charter: How to Start Out Right with Your New Business Partnership (or fix The One You’re In), lists seven cautions that would-be and existing partners should consider:

1) If you think you are not “partner material,” don’t take the partner path.
2) Use extreme caution when selecting a partner.
3) If you don’t really need a partner, don’t get one.
4) If it doesn’t feel good before you start, follow your gut and don’t do it.
5) Don’t be fooled into thinking that legal agreements and documents will keep you out of trouble with one another.
6) If you currently have a partner, and it does not feel like a positive working relationship, don’t just ignore it. Try to fix things.
7) If there are unanswered questions or vague boundaries and responsibilities with current partners, address these issues while you are still getting along.

Other valuable resources for prospective partnerships include: sba.gov, Nolo.com, and a workshop that SCORE offers on the topic of choosing a business structure.
To learn more about partnership issues, contact SCORE "Counselors to America's Small Business." These volunteer counselors provide free, confidential business counseling as well as training workshops to small business owners. The schedule of SCORE workshops is available through Community Education as well as on this website (SEMnnesota.SCORE.org).

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