

The Owners Manual

A FIELD MANUAL FOR BUSINESS OWNERS BY BUSINESS OWNERS

SEVEN ELEMENTS OF SUCCESSFUL PARTNERSHIPS

IDENTIFYING THE FACTORS THAT LEAD TO PRODUCTIVITY AND
PROFITABILITY IN BUSINESS PARTNERSHIPS

IN PARTNERSHIP



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BCMS Corporate specializes in sell-side advisory services for business owners in the lower-middle market. www.bcmscorp.com

INTRODUCTION

As many proprietors can attest, career independence and freedom has its costs. Business ownership is demanding and risky, and to distribute that risk, many entrepreneurs choose to form partnerships. While profits are shared, so is the risk. By aligning interests, the hope is that complementary skills, knowledge, and business relationships will add value. It often works just that way, but not always.

As an investment banking boutique with 22 offices in 17 countries, BCMS works on behalf of well over 100 private companies each year, to help our clients transfer their “baby” to new owners. That is why understanding how partnerships function is important for us. Our experience working closely with business owners tells us that healthy, high-functioning, and appropriately organized partnerships weather intense outside scrutiny, obstacles, and contentious issues better than their less healthy peers. High-functioning partnerships fetch higher prices on more favorable terms and their owners are able to derive more enjoyment along the way.

We’re proud to partner with *Inc.* Magazine’s Business Owners Council to bring you this vital research on the keys to successful business partnerships.

Robert Goldsmith

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Business Partnerships— 7 Essential Elements for Success

Research Essay by *Inc.* Magazine's Business Owners Council and BCMS Corporate

EXECUTIVE SUMMARY

This white paper is based on the findings of a research study commissioned by *Inc.* Magazine's Business Owners Council and BCMS Corporate, a boutique international mergers and acquisitions advisory firm. The goal of this research project was to understand the factors that allow some small business partnerships to thrive while others struggle. The advantages of having partners include bringing complementary skills, providing additional management capacity, driving more revenue, and offering feedback to help guide decision-making. When partnerships work well, the business operates more efficiently, achieves greater profitability, and involves fewer interpersonal conflicts.

What emerged from our research were seven factors that appeared to be present in any productive and smooth-running partnership. Fortunately, for those owners in partnerships that have not yet matured, these elements can be learned.

The 7 Essential Elements for Success are:

1. Trust
2. Compatible views of company culture
3. Mutual respect
4. A common mission
5. Good communication
6. Similar attitudes toward money
7. Complementary skill sets and clearly defined roles

Family-owned businesses offer additional challenges since business and personal lives often overlap. Among the unique challenges seen in family-owned businesses are:

- Family issues become business issues
- Business management is softer
- Talent management skews in favor of family members
- Limited long-term planning

The Benefits of a Written Partnership Agreement

A written partnership agreement or charter is the first way to improve a partnership by formalizing the relationship. It can also help gauge or audit the health of the 7 Essential Elements within a particular business relationship. For ongoing, more complex business strategy or personal issues, coaches or business psychologists can have a substantial impact.

Partners Like Having Partners

In our survey, over 75 percent of business owners said they would launch a new venture with some or all of their current partners—this response was strongest where partners had been personal friends or family members before working in a venture together.

Part I: The Challenge of Good Business Partnerships

INTRODUCTION

Inc. Magazine’s Business Owners Council and BCMS Corporate wanted to better understand one of the top challenges of small businesses—what sets apart successful partnerships from those where the partners are frustrated and the business is negatively affected. Our research for this white paper focused on three parts:

1. A survey with 87 owners about their partnerships
2. In-depth discussions with 10 business owners and interviews with others
3. Guidance from various business coaches and academics

We learned about partnerships in companies started by former co-workers, multigenerational family businesses, and several variations in between.

Our 87 survey respondents owned at least 10 percent equity in their businesses, and the median number of such equity owners per firm was two, as was the number of owners who participate in daily management. The median company age was 15 years, with almost \$4.7 million in revenue for the last fiscal year, and the year-over-year growth rate was 11 percent. President and CEO were the most common titles. (See Figures 1, 2, and 3.)

Figure 1. Survey Respondents

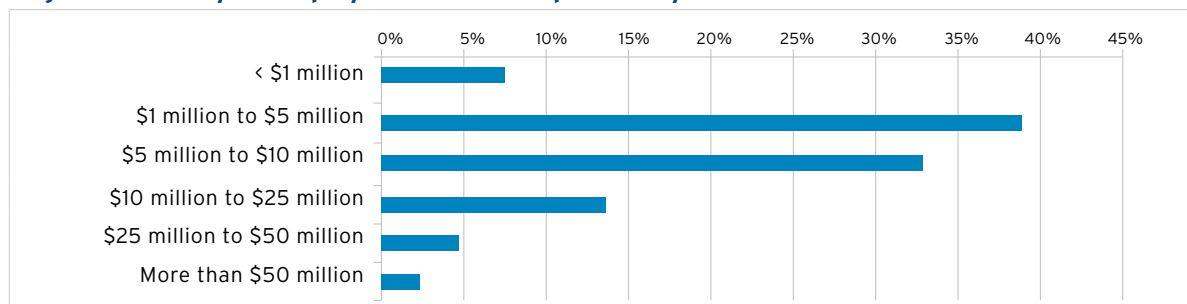
Number of qualified respondents	87
Company Profile	
	Median
Company age	15 years
Revenue for the last fiscal year	\$4,650,000
Year-over-Year growth (2008-2012)	11%
How many people have equity in your company, including yourself?	3
How many people hold 10% or more equity?	2
How many people participate in day-to-day management?	2

Figure 2. Primary Title of Survey Respondents

President	28%
CEO	23%
VP	8%
Partner	6%
COO	11%
Assorted other titles (SVP, COO, etc.)	35%

10% of the respondents said they had a second title of CEO.

Figure 3. What is your company’s revenue for the past fiscal year?



The businesses surveyed covered a range of sectors, but the most common fell into two categories: Professional Business Services and Real Estate, Construction, Home Services. (See Figure 4.)

The survey was conducted from July to September 2013. *Inc.* Magazine Business Owners Council, *Inc.* Magazine, and BCMS Corporate provided the lists of business owners who participated in the survey.

Figure 4. Business Sectors of Companies Profiled in Survey

Professional Business Services	16	Clothing, Jewelry	4
Real Estate, Construction, Home Services	14	Transportation, Logistics	3
IT	9	Architecture, Interior Design, Furniture	3
Medical, Health	9	Manufacturing	3
Marketing, Advertising	8	Toys & Collectibles	1
Financial Services	7	Food	1
Retail	4	Education	1
Media	4		

The business owners represent a cross-section of growing private businesses, with a heavier participation from the service sector.

DISCUSSION MEMBERS

In addition to our 87 survey respondents, we selected business owners—all members of *Inc.* Magazine's Business Owners Council from the New York and Philadelphia areas—to engage in frank, detailed discussions about the nature of their partnerships. This select group represented owners who had launched businesses decades earlier as well as those who started in the last few years, plus those who worked in family firms right after college or explored other avenues before joining relatives at their companies.

The participants were:

- Andy Presti, partner, Presti & Naegele, accounting services
- Bob Koncelik, partner, Fast Office, flexible office furniture and wall systems; previous owner of Universal Moving & Storage Company (family business purchased from parents and then sold to a third party); and the founder, Office Moving Alliance, an international network of office moving specialists
- Brittany Hodak, co-founder, ZinePak, custom publishing for fans of pop-culture icons
- Craig Berger, VP, Arista, refrigeration and air-conditioning products and services (family business with siblings and father)

The participants were (cont'd):

- Dan Epstein, CEO, ReSource Pro, provider of business process outsourcing services for the insurance industry
- Joe Romano, CPA, partner, Presti & Naegele, accounting services
- Nadine Cino, co-founder, Tygabox, manufacturer of reusable plastic boxes and dollies for office moving (family business with spouse)
- Naomi Glaser, SVP and co-owner, Valera Global, executive transportation solutions (family business with spouse and two other partners who are a married couple)
- Ross Miller, president, Hanover Fire & Casualty Insurance, policies for homeowners, renters, and artisans (family business Ross purchased from his parents)
- Vanessa Nornberg, co-founder, Metal Mafia and Bombshell Accessories, jewelry manufacturer and distributor

THE NATURE OF SMALL BUSINESS PARTNERSHIPS

For small business entrepreneurs, the advantages of having partners include their ability to bring complementary skills, provide additional management capacity, drive more revenue, and offer feedback to help guide decision-making. In partnerships that are running smoothly, there is evidence of the business operating at greater levels of efficiency and profitability. Interpersonal conflicts are minimal. By contrast, partnerships in conflict display a variety of challenges, such as inefficient use of resources, lack of business focus, higher stress, and lower satisfaction.

Our research showed that the business owners we surveyed would prefer having partners again if they were to start a new venture. In fact, just over 75 percent said they would launch a new venture with some or all of their current partners. Interestingly, those owners who were personal friends or family members before working in the business were twice as likely to want the same partners in a future business. (See Figure 5.)

Figure 5. Were you personal friends (or family members) with the other owners before you started your partnership?

"I was personal friends/family with the other owners before I started my partnership." (56 respondents)		"I was <i>not</i> personal friends/family with the other owners before I started my partnership." (30 respondents)
40% said "Yes"	If I could change responsibilities for my partners and myself, I would keep all of us engaged in management.	32% said "Yes"
25% said "Yes"	If I were starting a company today, I would launch it with some of my partners but not all.	35% said "Yes"
51% said "Yes"	If I were starting a company today, I would launch it with the same partners.	42% said "Yes"

Part II: The 7 Essential Elements of Successful Partnerships

When we asked owners about the issues where they had the biggest difference of opinions with their partners, six common challenges were perceived as having relatively similar levels of difficulty:

- Investing to grow the business
- How to sell or exit the business
- Agreeing on long-term strategy
- How our personal lives affect our business
- Spending money on small items to run the business
- Agreeing on day-to-day decisions

(See Figure 6.)

Figure 6. My partners and I have the biggest difference of opinion in the following areas:

	Respondents who said "Yes"*
Investing to grow the business	22%
How to sell or exit the business	22%
Agreeing on long-term strategy	20%
How our personal lives affect our business	20%
Spending money on small items to run the business	9%
Agreeing on day-to-day decisions	6%

* "Yes" defined as a score of "5" or "4" on a scale of "1"(least) to "5" (most)

1. TRUST

Ken Blanchard, author of *One Minute Manager* and well-known management expert, is of the opinion that the most important element for a successful working relationship is trust, which has four dimensions: competency, reliability, integrity, and caring. If trust is lost in even one dimension, the relationship will suffer in all the others—and will be very hard to repair:

- a. **COMPETENCY**—doing the job well. Each partner needs to deliver on the duties of his/her role to the degree required by the agreed-upon business goals. For example, if annual 10 percent growth is a goal, then each partner needs to deliver their part to achieve it. Partners who can only complete their responsibilities at a rate slower than required by the business or only with regular reworking of projects will strain relationships and staff confidence in the firm.

- b. **RELIABILITY**—doing the job consistently. When a partner makes a promise, it needs to be completed. Reliability in a small business has several dimensions with different expectations—among partners, between a partner and customer, between a partner and staff, between a partner and vendor, for example. In each case, a partner needs to provide consistency of process and results by actions and communications. Lack of reliability threatens daily collaboration and predictability for resource planning.
- c. **INTEGRITY**—doing the job with sincerity. When partners are forthright and communicate honestly without hidden agendas or schemes, colleagues are more likely to believe them.
- d. **CARING**—exhibiting a keen interest in others. Partners who understand that every partnership requires collaboration will engage peers and staff in conversations and demonstrate interest in their projects and concerns. Those with advanced skills will comfortably praise others and show empathy.

2. COMPATIBLE VIEWS OF COMPANY CULTURE

If partners do discuss company culture at all, it is often in terms of what feels right for their personal desired work style and the general business goals—such as they should have business formal vs. business casual attire or a formal hierarchy vs. an informal flat organization, etc.

There is a harder edge to culture, however. “Organization culture is not a soft concept,” says James L. Heskett, a Baker Foundation professor emeritus, Harvard Business School. “Its impact on profit can be measured and quantified.” In his book, *The Culture Cycle: How to Shape the Unseen Force that Transforms Performance*, he states that “an effective culture can account for 20-30% of the differential in performance compared with ‘culturally unremarkable’ competitors.”

The survey and interviews in this research study revealed that partners often do not have the same vision of what the culture should be. To make sure your culture is operating as well as it can, it helps to look at the basic building blocks. Six components are common in cultures that are working well, according to John Coleman, Harvard Business Review blogger and co-author of *Passion & Purpose: Stories from the Best and Brightest Young Business Leaders*. Since culture starts at the top of an organization, these six components also offer insight into the dynamics of partnerships:

- a. **Vision** or mission guides a company’s values and provides it with a purpose that orients every decision employees make. At the most basic level, partners need to agree on the vision of the company. The Zappos.com mission statement is “to provide the best customer service possible”—and the company’s reputation demonstrates the high degree of commitment the founder Tony Hsieh puts into it. (Hsieh still leads the company with the same principles, although he sold it to Amazon.)

- b. **Values** offer a set of guidelines on the behaviors and mindsets needed to achieve the vision. With Zappos.com, it takes the form of 10 very clear core values that guide employees through the day and also support the brand image (Embrace and Drive Change, Be Adventurous, Creative, Open-Minded, etc.).
- c. **Practices** embody the company values. When partners disagree about routine company practices such as estimating delivery times for clients, more fundamental lack of agreement is also at play. While partners do not need to agree on every point, they need to understand, respect, and appropriately respond to their colleagues' views and approaches.
- d. **People** who work for the firm, including partners, need to share core values. When recruiting new partners or employees, cultural fit is often more important than technical abilities and experience. Even the most respected large corporations such as McKinsey and Goldman Sachs focus on cultural fit to such an extent that they require 10 or more interviews before a candidate is hired. So does Hsieh, who famously said, "We've actually passed on a lot of smart, talented people that we know can make an immediate impact on our top or bottom line; but if they're not good for our culture then we won't hire them for that reason alone. The reverse is true too. Even if a person is great at their job, even if they're a superstar at their job—if they're bad for our culture we'll fire them for that reason alone." Skills are important, but if the right attitude is missing, the job will not be done right anyway. That's what makes the cultural fit factor so critical.
- e. **Narrative** is the unique, popular history of a company. It could be a story about the origins of the business, such as Ben and Jerry splitting the \$5 cost for a correspondence course on ice cream making, or a particular company characteristic, for example, Brooklyn Industries' commitment to social responsibility began by making messenger bags from recycled vinyl billboards and today it has 16 stores run on wind power that sell clothing and a variety of bags (including the original line). When stories are retold and come to embody the characteristics of doing business at that company, they become important threads in the cultural fabric.
- f. **Place** reflects the personality of the owners and the business. It also makes a statement about the brand that will attract certain customers and employees and perhaps not resonate with others. Brooklyn Industries identified with its borough of New York not just in name, but also in its logo. The logo is a cityscape sketch based on the view from the top of its decades-old factory building headquarters. Internal space makes a statement too. In San Francisco, for example, start-ups that have jumped the initial hurdles and are ready to expand have given up the bean chairs and foosball tables of the previous generations. Flexible workspaces and bold architectural statements are used as recruiting tools to set a tone that will attract smart engineers from other firms.

3. MUTUAL RESPECT

As a U.S. senator and basketball player, Bill Bradley knew about working with others, even the opposition. “Respect your fellow human beings, treat them fairly, disagree with them honestly, enjoy their friendship, explore your thoughts about one another candidly, work together for a common goal and help one another achieve it,” he said. “No destructive lies. No ridiculous fears. No debilitating anger.”

That advice certainly applies to business partnerships, as they require a depth of mutual respect and trust. When mutual respect is missing, business and interpersonal conflicts can become a recurring theme rather than an occasional passing event. The business can suffer from reduced collaboration and ill-spent energy.

In his book *Leading at a Higher Level*, Ken Blanchard examines the connection between mutual respect and performance. He believes that leaders must focus on both long-term results and personal satisfaction, and the way to do that is through “the process of achieving worthwhile results while acting with respect, care and fairness... When that occurs, self-serving leaderships are not possible.”

Vanessa Nornberg is owner of Metal Mafia, a wholesale body and costume jewelry company located in New York City. In Vanessa’s business, she and her partner divide their main duties, but there is some overlap. “I will solicit his advice and have a second set of eyes on a design,” she says. “He’ll do the same if he’s doing something more sales related. When push comes to shove, because of the way the company is structured, my word goes if it has to. However, we do most of what we do in concert and rarely reach that point.”

Additional Resources from Inc.

How to Structure a Partnership

By Elizabeth Wasserman

<http://www.inc.com/guides/structuring-partnerships.html#/guides/structuring-partnerships.html>

Partnerships are incredibly common—and incredibly hard to sustain. Here is how to set up a partnership that is equitable, efficient, and mutually rewarding.

4 Reasons Business Partnerships Fail

By Janine Popick

<http://www.inc.com/janine-popick/4-reasons-business-partnerships-fail.html>

Keep your eyes open for these red flags—they could make a partnership go off the rails.

5 Reasons It Might Be Time to Find a New Business Partner

By Dave Smith

<http://www.inc.com/guides/201103/five-reasons-to-find-a-new-business-partner.html#/guides/201103/five-reasons-to-find-a-new-business-partner.html>

Business partnerships are great—when they work. Here are five reasons it might be time to split up with your business partner.

When Partnerships Work

By Mike Hofman

<http://www.inc.com/articles/201105/small-business-success-stories-rickshaw-dumpling-bar.html>

Placing second in a business plan competition convinced David Weber and Kenny Lao that they had a viable business idea. Six years and 70 employees later, they are going strong.

Especially in family businesses where partners have been “inherited” not chosen, respect can be elusive. If the family dynamics are not based on open, honest communication and respect, then the business version of the relationships will not have them either. Competitiveness and jealousy, for example, can overwhelm smart decision-making.

4. A COMMON MISSION

“All the people in my company are pretty strong willed,” says Dan Epstein, CEO, ReSource Pro. “On the other hand, we don’t let our egos get in the way of business. We are all very conscious about doing what is right for the company. We’re just taking a long-term view.”

Successful companies have clear missions that guide partners and employees in daily work life regardless of the person’s role. When Scott Cook co-founded his company, Intuit, with one other person, he began writing the employee handbook on the first day in March 1983. Today, Intuit has 8,500 employees. By contrast, many business partners see ongoing challenges when an agreed-upon common mission is lacking. As one owner in a multigenerational family business stated, she was determined to refocus her siblings and parents on growing sales and not just maintaining them. She understood, however, that they all would not agree on the business’s direction, but it was hard for her to acknowledge that reality and stop trying.

“I think you need loyalty to just get through whatever it’s going to take to be successful,” says Nadine Cino, co-founder, Tygabox, manufacturer of reusable plastic boxes and dollies for office moving. “There’s no quitting in the middle. That’s invaluable.”

While other partnerships may not start documenting the vision for a new venture as early as Intuit did, having a common understanding helps the owners progress faster and bypass common roadblocks by providing:

- A clear vision for the company and its trajectory
- A business model where everyone understands his/her role
- A common understanding of ethical behavior
- A similar engagement and commitment to the business
- Acceptance with regard to what can and can’t change

While partners may have similar client responsibilities, especially in professional services organizations such as accounting firms or medical group practices, they usually also have functional obligations to the enterprise. “The partners in our firm really are running a business as opposed to just being accountants with their own clients,” says Andy Presti, partner, Presti & Naegele, accounting services. “It’s more about managing the staff to help all clients.”

Sometimes, an alliance of visions comes in unexpected ways. When Brittany Hodak, co-founder, ZinePak, a custom publisher for fans of pop-culture icons, was starting her business, she needed capital. She was not, however, inclined to give up equity to would-be investors interested in the product concept that had wide application in their industry. She did not want to be in partnership with any of them because they would likely require her to limit her client base by not doing business with their competitors. She found her equity partner in an unlikely place—a friend and potential employee who said to her, “Why don’t I just bankroll this and then we can work with whomever we want?”

Figure 7. Considering the ongoing contributions of the owners to the value of the company, the equity held by each:

“It was fair at the beginning and it’s still fair today.” (46 respondents)	Is there a misalignment between the equity each of the partners holds and the contributions they make?	“It was fair at the beginning but not anymore.” (35 respondents)
68% said “Yes”	If I could change responsibilities for my partners and myself, I would keep all of us engaged in management.	26% said “Yes”
15% said “Yes”	If I were starting a company today, I would launch it with some of my partners but not all.	43% said “Yes”
45% said “Yes”	If I were starting a company today, I would launch it with the same partners.	31% said “Yes”

5. GOOD COMMUNICATION

“The greatest problem with communication is the assumption that it has taken place,” said George Bernard Shaw, both a playwright and a co-founder of the London School of Economics. From the evidence gathered in our research, that assumption leads from simple misunderstandings to more serious conflicts.

Judith E. Glaser understands how well business leaders communicate with each other—or how they think they do. As the CEO of Benchmark Communications, chairman of The Creating WE Institute, a consultant to Fortune 500 companies, and a small business owner, she has spent thousands of hours observing executives engaged in daily activities for their roles. She concludes, “People often think they’re talking to each other when they’re really talking past each other. They carry on monologues, not dialogues. Clear two-way, empathetic, non-judgmental communication is critical for the high functioning of any business. It’s how deals get done, projects get run, and profits get earned.”

When applied to partnerships, she identifies these communication blind spots among the problems many business owners encounter daily:

- Partners rarely have the same insights, feelings, and thoughts as you do.
- Emotions change how your partner and you interpret events and reality.
- Remembering what you were thinking about someone's statement is easier than remembering the actual words.
- Your partner may not be a good communicator, but that does not mean you are by default.

To get beyond these roadblocks, you can use three tips to improve communication:

- Do not hog the spotlight and try to own every moment.
- Ask open-ended and follow-up questions to explore an issue.
- Listen objectively.

The panel also identified some related qualities required for good communication among partners:

- Ability to have productive, difficult conversations
- Regular meetings to review business-as-usual and large challenges
- Clear process for approving and rejecting proposals
- Egos put in check

Brittany Hodak needed to have a conversation with her partner about philosophical differences regarding the business. She did not want to do it in a way that was going to hurt her feelings, upset her, or cause a rift between them. Realizing she could not avoid the issue any longer, she sought help from a business coach who could facilitate the conversation between them.

Counseling can also help keep a partnership healthy well before any signs of atrophy appear. Two partners in a firm were selected to open a key, new office in another part of the country. They benefited from the trust that had been built on being childhood best friends, college classmates, and professionals in the same field.

They were determined to ensure an important friendship did not inadvertently become a business casualty, so they maintained a one-hour monthly meeting with a therapist to ensure no issue or miscommunication festers for too long without being aired.

6. ATTITUDES TOWARD MONEY

While there are many ways a partnership can break down, differing attitudes about money can be one of the most disabling. In small businesses, attitudes about money appear in several ways:

- **Willingness** to invest for growth vs. conserving capital
- **High vs. low need** for partner income from business
- **Viewing employees** as key investments for future success vs. seeing them as replaceable because they only perform functions many others could do
- **Using the business's cash** as a casual personal bank with easy withdrawals and return of funds vs. treating it formally with signed agreements for any personal loans

Although he now advises business owners about their partnership issues, Richard Magid, founder of SoundBoard Consulting Group, also had personal experiences working with a partner who had very different money attitudes than his own. “My partner was an expense guy,” he says. “Everything was an expense. He did not have a long-term investment mentality. So for him, adding an employee or investing in a technology or trying out new methods simply meant money out of our pockets. He had a short-term scarcity mentality, whereas I was on the other end of the continuum.”

In some partnerships, unaligned money attitudes derive from owners being at different life stages. A partner in her early 30s with young children thinking about moving the family to a larger house and saving for college tuition and retirement will likely have a higher need for current income than her 55-year-old empty-nest partner who is planning an early retirement and is increasingly focused on how his time and investment in the business will eventually get monetized.

“We get money conflicts if we don't understand the different needs or we don't take that into account when we're structuring our compensation or how we spend money in the business,” says Magid.

Additional Resources from Inc.

7 Rules for Avoiding Conflicts of Interest in a Family Business

By Carolyn M. Brown

<http://www.inc.com/guides/201102/7-rules-of-conduct-for-family-businesses.html>

Dealing with employees on a personal level can wreak havoc in a small or family-owned business. Here is how you can keep from making some common mistakes.

How to Run a Family Business

By Christine Lagorio-Chafkin

<http://www.inc.com/guides/running-family-business.html>

No matter if you're the first, second or third generation owner, running a family business presents particular challenges and rewards.

Still Partners (in Life and Business) After 20 Years

By Jeff Haden

<http://www.inc.com/jeff-haden/how-to-balance-a-life-and-a-business-partnership.html>

Thinking about starting a business with your significant other? Read this first.

Business Partners: 3 Essential Ingredients

By Vanessa Merit Nornberg

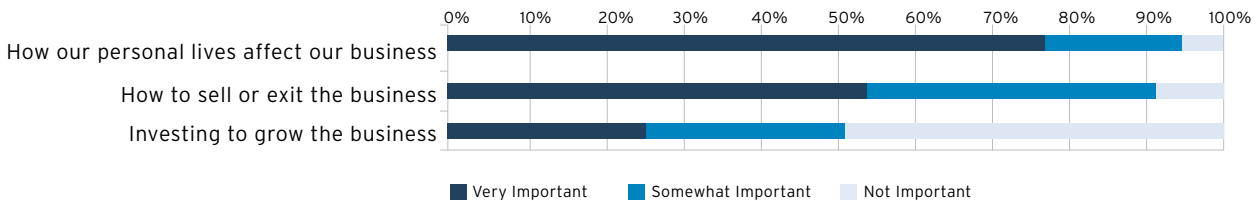
<http://www.inc.com/vanessa-nornberg/three-essential-ingredients-for-business-partners.html>

One individual (or four) may embody these characteristics. In one way or another, you need these three traits to make your business thrive.

7. COMPLEMENTARY SKILL SETS AND CLEARLY DEFINED ROLES

In the survey, we asked business owners what defines and guides them in their daily relationships with partners. They identified roles and shared history as more important than the partnership agreement. (See Figure 8.)

Figure 8. In terms of what defines and guides your day-to-day relationship with the other partners, rate the importance of:



Successful partnerships require clearly defined—and understood—roles that benefit from complementary skill sets. For many companies, the division of duties will be clear from the start—such as the professional audio company where one partner oversees office operations and the retail salesroom; another takes care of on-site large-scale project planning and proposals; and the third supervises installations from both sources of sales. In the case of professional companies, such as accounting firms, each partner often has an equivalent group of clients for which the provided services are very similar, but their corporate responsibilities, such as public relations and compliance, are distinct.

“We divvy up responsibilities so everything doesn’t fall upon one partner,” says Joe Romano, CPA, partner, Presti & Naegele, accounting services. “If I go on vacation or I get sick, there are other people who’ll pick up the slack. If I were by myself it would be impossible. For keeping up to date with new regulations, for example, we all have our own focus to help everyone else.”

When roles are not clearly understood, it can be disruptive to the partners as well as to employees, and cause distracting tension. When roles are clear, the partnership can progress. This requires:

- **Understanding** of the necessary skill sets needed to run the business
- **Acknowledging** who brings which of these skills to the partnership
- **Appreciation** of the special contributions a partner brings—and the extra levels of experience/ability
- **Agreement** on how to fill skill gaps—with either new partners or employees

Having clearly defined roles for company leadership does not necessarily mean each person becomes a partner. Brittany Hodak of ZinePak suggests that when growing, perhaps an alternative solution is hiring a high-performing C-level executive who is compensated by salary and bonus but is not an equity holder. “If you plan on selling the business, consider if it is worth it, in the short term, to have somebody as an equity partner versus someone you can

look to as an advisor without owing them a share of future profits,” she says.

Before many of today’s successful enterprises were created, to-be business partners had complementary skill sets and clearly defined roles already in place to help them succeed later. More than simple friendship, a unity of purpose drove them to develop business ideas together. Larry Page and Sergey Brin bickered before they collaborated on a research paper that became the basis for Google. William Procter and James Gamble were just brothers-in-law until their father-in-law suggested they go into business together. Gordon Moore and Bob Noyce worked together at a semiconductor company and left to start a rival, much more successful one—Intel.

“If there were to be some change in roles, I would actually change what both partners do,” says Nadine Cino of Tygabox. “Neither one of us is truly at our best when we do what we do on a daily basis. My partner is an incredible inventor. I’d just put him in a big room that’s full of whatever tools and materials he likes and let him take his mind and mine off that daily grind.

I would create a sales team behind us that could just continue growing the business. And I would be just as happy to let someone take over who is younger, smarter, has a bigger appetite for growing the business, and knows how to scale a small company into a big, global entity.

I do not know how to do that. I will probably figure it out by the seat of my pants, but how many unnecessary failures will we have? Who needs to waste time?”

SPECIAL CONSIDERATIONS IN A FAMILY BUSINESS

“I always tell people that being in a family business is the greatest thing in the world and the worst thing in the world—all at the same time,” states Ross Miller.

Family-owned businesses face unique challenges caused by the overlap of family, ownership, and management systems, according to the Family Business Center at the University of Louisville College of Business. Among the unique challenges seen in family-owned businesses are:

Family Issues Become Business Issues

- Personal health, marital, and financial problems
- Family tradition restricts improvement
- Family patterns, processes, drive communications
- Non-active owners still have control

Business Management Is Softer

- Lack of clear policies leads to confusion
- Lack of outside perspective
- Competing visions of family members
- Long- and short-term plans not formalized

Talent Management Skews in Favor of Family Members

- Compensation doesn’t match contributions
- Family members may lack the skills for the job
- Talented employees become frustrated at family members’ advancement
- Appropriate education isn’t a prerequisite for family members joining the firm

Limited Long-Term Planning

- Succession and exit strategies are absent or informal
- No formal plans to maintain growth
- Maintaining the status quo frustrates younger family members and prevents innovation

Craig Berger’s father wanted to retire from the family refrigeration and air-conditioning business, but he wanted to be sure that Craig and his brother would get along after he left the office. With the help of a coach, the brothers talked through ideas about the future of the firm and found new areas of agreement.

Family businesses need more formality than other businesses because they are generating the income for the family, notes Richard Magid. They also need strict criteria when adding new family members to the business. “In family businesses, we let our guard down and let things happen. We’re afraid to face everyone at the Thanksgiving table.”

“My parents were complacent—as long as I was out producing business, everything was hunky-dory,” says Bob Koncelik, who was a co-owner with his parents. “We fought every day. With personnel, it was a revolving door. They never invested in anybody. We could never develop consistency in our services.”

When Koncelik bought them out, their relationship changed dramatically. “It was as if somebody flipped a switch and all of a sudden we were nice to each other,” he says.

Part III: Improving a Partnership

Our research showed that many partnerships would benefit by boosting the strength of their 7 Essential Elements. Although many business owners' emphasized roles and shared history over a verbal partnership agreement, a written document of understanding or charter is the first way to improve a partnership by formalizing the relationship. For ongoing, more complex business strategy or personal issues, coaches or business psychologists will have the most impact.

WRITTEN PARTNERSHIP AGREEMENT

“Right up front, you really have to have an agreement in place saying exactly what you mean and exactly what you want the relationship to be,” says Ross Miller, president, Hanover Fire & Casualty Insurance. “If you don't, then it's just a matter of time before somebody says, ‘Well, that wasn't the deal. What do you mean I have to work as many hours as you do?’ It is better to get it out and get it done in the beginning. It really is.”

We found in the survey that 67 percent of owners had a written partnership agreement. The survey also identified that partners who were personal friends or relatives before the business started would start the company again with the same owners in only half the cases. (See Figure 9.) Clear, formal agreements help ongoing operations and lower uncertainty—and they span the breadth of the working relationship to help address issues such as:

- **Preventing confusion** and avoiding conflict when informal or personal understandings can lead to misinterpretation
- **Contingency plans** if a partnership doesn't work and needs unwinding
- **Eliminating unqualified relatives**, like spouses and children, from entering the business solely because of equity ownership
- **Financial planning** for the exit of a partner without hurting the business or other partners
- **Dispute resolution provisions** by which an agreement may provide for mediation or arbitration in lieu of costly legal proceedings
- **Minority shareholder rights** with respect to important decisions
- **Decision-making authority** around important issues such as hiring and firing, legally committing the company, or selling the business
- **Capital contribution** requirements
- **Termination** of partner provisions

If a partnership takes the legal form of a limited liability company, a partnership agreement is only required in some states, but it is helpful for any business. While such agreements address the operational mechanics of how the business is to be run—and in the case of an LLC to limit personal liability—they also can diminish or eliminate some of the tougher, emotional challenges of working with partners. The Small Business Administration recommends that a partnership agreement cover these areas:

- Percentage of members' ownership
- Voting rights and responsibilities
- Powers and duties of members and managers
- Distribution of profits and losses
- Holding regular meetings
- Buyout and buy-sell rules (procedures for transferring interest when members choose to leave or in the event of a death)

Richard Magid of SoundBoard Consulting Group believes that the more partners talk through the decision-making process, the better—knowing which issues need complete agreement versus which ones rest with the partner who has expertise in that area will allow for a better partnership. The same is true of the roles, responsibilities, and compensation. If a partner is in a sales role that requires many additional hours for travel and evening meetings, for example, his/her compensation may be higher than the partner who is able to maintain a more regular workday.

While a solid partnership agreement provides the underpinning for a clear understanding of the working relationship, it can also enhance the interpersonal one so new concepts are built on the same foundation, rather than coming as complete surprises. When it came time to unwind the partnership, Ross Miller of Hanover Fire & Casualty Insurance wanted a timeline different than what his agreement stipulated. “We didn’t actually use the agreement to the letter,” he says. “I actually decided to buy him out sooner than the agreement permitted—and he was happy to do that, so it was mutual.”

Figure 9. Business Owners and Their Partnership Agreements

A. Companies with a written partnership agreement	67% said “Yes”	32% said “No”	2% said “Not sure”
B. If “Yes” to A, do you understand the details about roles, responsibilities, and how shares may be purchased and sold?	95% said “Yes”	2% said “No”	3% said “Not sure”
C. If “Yes” to B, if you were creating a new agreement today, would you keep the same details?	27% said “Yes, exactly as is”	56% said “With some changes”	10% said “With major changes”

Of those business owners who do have a partnership agreement, almost all say they understand the details and slightly more than half would create a new agreement with some changes.

GETTING EXPERT PARTNERSHIP ADVICE: COACHES AND PSYCHOLOGISTS

“We hired someone who knew each owner to be our CEO,” says Naomi Glaser, SVP and co-owner, Valera Global, executive transportation solutions. “We felt that he could work with each of our four different personalities as well as lead the company. We know that we have been dysfunctional in the past, but with our 10 key managers, internal procedures, and CEO, we have been successful. To take it to the next step, we started working with a business coach so that we can, after all of these years, start to break down the communication barriers and other obstacles and start to work together in unison.”

Even a superb, 20-page partnership agreement cannot anticipate potential interpersonal conflicts and surprising circumstances a business may confront. When partners do not mesh on the 7 Essential Elements, outside experts can offer objective insights and ways of bridging the breakdowns. They can also identify the strengths of each partner and suggest ways the business can best benefit from them—which, in some cases could result in an adjustment of role responsibilities. The survey discovered, for example, that of those business owners who felt their equity share was fair at the beginning and today, 68 percent would change their responsibilities and keep all partners engaged in daily management.

Coaches can address a range of business and partnership challenges, including:

- As the business matured, the original goals and priorities of the partners did not grow in the same direction.
- What originally had been small gaps in technical or interpersonal skills have grown to a size that now impedes growth, prevents consensus, or harms the culture.
- Previous self-diagnosis of problems and the applied solutions have not worked.
- The business—or partners—are not adequately prepared to move to the next stage of growth or to take on new opportunities.
- The partners have differing levels of commitment to the business.

Richard Magid, a leadership coach who consults with companies with a variety of partnership challenges, says, “The role of a coach is to work with partners and managers—both individually and as a group—to foster the types of business conversations that need to take place. Sometimes the most difficult conversations can bring the greatest level of productivity.”

A business psychologist, on the other hand, can address a partner’s behavior, motivations, communication style, family or group dynamics, and other interpersonal issues beyond strict business ones. As coach Richard Magid notes, partners very rarely consider that they are the source of friction caused by the way they communicate with partners, lead employees, or manage clients. Typical goals for seeing a business psychologist include:

- Improving motivation, discipline and confidence
- Resolving family and family business conflicts
- Addressing work/life imbalance

- Managing stress
- Diminishing barriers to a more effective partnership
- Increasing personal or partner performance

“I got my sister to meet with a business psychologist,” says the sibling in a third-generation firm. “I think she thought that if we went to a neutral third party, he would say that my ideas were crazy. It turned out differently.”

CONCLUSION

Even companies with highly marketable products and services can be trapped by underperforming business partnerships that limit profitability and diminish the quality of work life for employees. By contrast, partnerships in conflict display a variety of challenges, such as inefficient use of resources, lack of business focus, higher stress, and lower satisfaction. In family businesses where owners need to balance the expectations of relatives to participate in company operations and a management approach that follows rational best practices, the challenges can appear overwhelming and irresolvable at first.

Fortunately, the 7 Essential Elements offer practical guidelines for improvement. For those partnerships in need of an external perspective, business coaches and business psychologists can help owners work through issues with others as well as themselves. A strong partnership agreement can help clarify a range of unresolved questions about succession, decision-making, compensation, roles, etc.

Exit Strategies—When It's Time to Go

The end of an owner's participation in a partnership may occur for several reasons: retirement, disability, death, personal bankruptcy, or withdrawal, which can take a voluntary path (“I quit”) or an involuntary one (“You're out”).

A formal agreement document should detail how the partners or heirs will be compensated for equity and goodwill value. In the absence of clear buy/sell language, for example, a slacker widower could inherit his wife's share of a business and suddenly have a large say in its operation. Financial planners recommend that life insurance policies fund buy/sell actions so sufficient funds are available when the agreement is triggered and to avoid any potentially negative effect on the business, remaining or departing stakeholders, and surviving heirs. Also, a non-compete clause can prevent a departing partner from poaching clients or even starting a competing business.

When the partners see selling the business as the best option, the partnership agreement will cover the basics of equity ownership, but it will not provide a complete plan. In the absence of an agreement, partners will have more to negotiate and review, which may come at a time of emotional tension when financial and management pressures are forcing resolution.

Business owners need to follow four planning paths to successfully sell a business from a personal and financial perspective, according to Paul Cronin, Partner and Director of Business Development at the Successful Transition Planning Institute:

- Personal transition—preparing for the emotional impact of leaving a business
- Business continuation—running the business without the owners or the owners in advisory roles
- Business transaction—negotiating the actual deal points
- Personal financial—developing a financial and estate plan to manage assets, structure the inheritance to heirs, and reduce taxes

Hiring professionals to guide a partnership through each of the four paths will greatly increase the likelihood of smoother transitions, more satisfying financial solutions—and fewer surprises, resentments, and regrets.

Appendix A

PARTNERSHIP PROFILE

No partnership will run smoothly all the time, but detailing areas of friction will help lead to resolution, either from frank discussions among partners or with the help of a business coach, if required.

For the profile to be as helpful as possible, please answer the questions with a self-critical eye, acknowledging your contribution to partnership challenges.

Answer the questions in two ways:

How Often Do You Think About the Issue? 1 (Never) to 5 (Always)

How Big Is the Gap Between You and Your Partners? 1 (Small) to 5 (Big)

How Often Do You Think About the Issue? (Rate from 1 to 5)					How Big Is the Gap Between You and Your Partners? (Rate from 1 to 5)					Total Multiply your answers in previous two columns (totals will range from 1 to 25)
Never	Sometimes			Always	Small	Medium			Big	
1	2	3	4	5	1	2	3	4	5	

1. Common areas of friction in a partnership

• Personal lives negatively affecting the business										(CIRCLE ONE) 1-7 8-15 16-25
• Selling or exiting the business										(CIRCLE ONE) 1-7 8-15 16-25
• Investing to grow the business										(CIRCLE ONE) 1-7 8-15 16-25
• Spending money on small items to run the business										(CIRCLE ONE) 1-7 8-15 16-25
• Agreeing on day-to-day decisions										(CIRCLE ONE) 1-7 8-15 16-25
• Agreeing on long-term strategy										(CIRCLE ONE) 1-7 8-15 16-25

2. Trust—concerns about partners'

• Competency										(CIRCLE ONE) 1-7 8-15 16-25
• Reliability										(CIRCLE ONE) 1-7 8-15 16-25
• Integrity										(CIRCLE ONE) 1-7 8-15 16-25
• Caring about others										(CIRCLE ONE) 1-7 8-15 16-25
• Agreeing on day-to-day decisions										(CIRCLE ONE) 1-7 8-15 16-25
• Agreeing on long-term strategy										(CIRCLE ONE) 1-7 8-15 16-25

How Often Do You Think About the Issue? (Rate from 1 to 5)					How Big Is the Gap Between You and Your Partners? (Rate from 1 to 5)					Total Multiply your answers in previous two columns (totals will range from 1 to 25)
Never	Sometimes			Always	Small	Medium			Big	
1	2	3	4	5	1	2	3	4	5	

3. Company Culture—different views about:

• Vision										(CIRCLE ONE) 1-7 8-15 16-25
• Values										(CIRCLE ONE) 1-7 8-15 16-25
• Practices										(CIRCLE ONE) 1-7 8-15 16-25
• People fitting into the culture										(CIRCLE ONE) 1-7 8-15 16-25
• Narrative (company stories that support the brand)										(CIRCLE ONE) 1-7 8-15 16-25
• Place or the physical environment										(CIRCLE ONE) 1-7 8-15 16-25

4. Mutual Respect

• Partners show respect for each other										(CIRCLE ONE) 1-7 8-15 16-25
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5. Common Mission—partners share:

• Clear vision for company and its trajectory										(CIRCLE ONE) 1-7 8-15 16-25
• Knowledge of business where partners understand his/her role										(CIRCLE ONE) 1-7 8-15 16-25
• Common understanding of ethical behavior										(CIRCLE ONE) 1-7 8-15 16-25
• Similar engagement and commitment to the business										(CIRCLE ONE) 1-7 8-15 16-25
• Acceptance of what can and can't change										(CIRCLE ONE) 1-7 8-15 16-25

6. Good Communication

• Partners hog the spotlight and try to own every moment										(CIRCLE ONE) 1-7 8-15 16-25
• Partners don't listen objectively										(CIRCLE ONE) 1-7 8-15 16-25
• Ability to have productive, difficult conversations										(CIRCLE ONE) 1-7 8-15 16-25
• Regular meetings to review business-as-usual and large challenges										(CIRCLE ONE) 1-7 8-15 16-25
• Clear process for approving and rejecting proposals										(CIRCLE ONE) 1-7 8-15 16-25
• Egos in check										(CIRCLE ONE) 1-7 8-15 16-25

How Often Do You Think About the Issue? (Rate from 1 to 5)					How Big Is the Gap Between You and Your Partners? (Rate from 1 to 5)					Total Multiply your answers in previous two columns (totals will range from 1 to 25)
Never	Sometimes			Always	Small	Medium			Big	
1	2	3	4	5	1	2	3	4	5	

7. Attitudes toward money—partners disagree on:

• Willingness to invest for growth vs. conserving capital										(CIRCLE ONE) 1-7 8-15 16-25
• High vs. low need for partner income from business										(CIRCLE ONE) 1-7 8-15 16-25
• Viewing employees as key investments for future success vs. seeing them as replaceable because they only perform functions many others could do										(CIRCLE ONE) 1-7 8-15 16-25
• Using the business's cash as a casual personal bank with easy withdrawals and return of funds vs. treating it formally with signed agreements for any personal loans										(CIRCLE ONE) 1-7 8-15 16-25

8. Complementary Skill Sets and Clearly Defined Roles—there is a common:

• Understanding of the necessary skill sets to run the business										(CIRCLE ONE) 1-7 8-15 16-25
• Acknowledging who brings which of these skills to the partnership										(CIRCLE ONE) 1-7 8-15 16-25
• Appreciation of the special contributions a partner brings—and the extra levels of experience/ability										(CIRCLE ONE) 1-7 8-15 16-25
• Agreement on how to fill skill gaps—with either new partners or employees										(CIRCLE ONE) 1-7 8-15 16-25

HOW TO ASSESS YOUR PROFILE:

Look at your reds, yellows, and greens and determine those sections where you have the biggest hurdles to overcome. Refer to the research essay for next steps on how to address those hurdles.

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