Important Considerations in Forming a Business Partnership – a blog post by David Goldenberg

Business partnerships can take your company to the next level, but are often more complicated than traditional sales or service agreements. Below are some considerations.

A new business partnership can be a fantastic way to help your company grow, but there's no guarantee of success. Whether you are forming a business partnership with an old friend, trusted colleague, or an investor who is passionate about an idea, there are a few careful considerations to weigh before putting your name on the agreement.

1. Have a Contract
Before you actually start delivering in the partnership, arrange a formal written agreement with your new business partner. From a legal perspective, this is the most important thing to have when starting a new partnership.
As foolish as it seems, some people leave important details — like a contract — until the last minute. By then, you may have already assumed some unexpected risk and liability. A contract is not a symbol of mistrust, it is the backbone of your new partnership, giving a new business the shape and structure to stand on its own and succeed.

2. Define the Partnership
A contract defines a partnership, and without one, you are likely to encounter conflict and discord if things don't go as expected.

A business partnership can take many forms:

• General Partnership – in which two or more individuals/entities share both profits and liability.
• Contractual Arrangement - in which the two partners simply coordinate on the partnership terms through a written agreement.
• Limited Partnership – typically an arrangement where one partner (the general partner) operates the business and the other partner(s) contribute financially but is not typical involved in the business.
• Joint Ownership of an LLC or Corporation – in which the partners agree to form a new entity which will have its own business and which will be owned by the partners.
• Limited Liability Partnership – an organizational structure usually adopted by professional companies that allows greater flexibility for limited partners while protecting their assets.

3. Establish Long-Term Goals
A business partnership is like a marriage in some ways. Both partners may not always want the same thing for the future. Like a marriage, when a partnership fails, an unplanned divorce can be costly.

Discussing long-term business goals before the formation of a partnership can save time and money for all parties. In addition, a well-developed business plan that details agreed-upon goals is a valuable guiding document to both the business and partnership's long-term success. Certain features of the partnership, such as how decisions are made, how profits are split and what happens if things don't work out, should be spelled out in a legal document, ideally drafted by an attorney.

4. Have a Plan for Disagreements

Disputes and conflicts are an inevitable part of life and a component of practically any business partnership. Success depends on knowing how to address disagreements in a constructive manner and being prepared to separate business activity from personal friendship.

A written plan, that can be activated when disagreements on how to run the business arise, can be a useful tool to avoid more costly types of disputes. In addition to saving the business, a plan for mediating serious conflicts can also keep partnerships and friendships intact when the parties agree to abide by the legal principles behind it.

5. Pinpoint Roles

A partnership does not end at the dotted line on an agreement. While each partner's roles may be defined clearly in terms of the financial support and liability, partnership agreements often fail to identify what skills or other resources each partner brings to the business.

By agreeing upon each person's contribution, area of expertise, and duties beforehand, business partners gain a clearer understanding of how the partnership will function. Constantly butting heads over policy and practice can drag a business down and destroy the partnership quickly. Establishing written SOPs and partner duties and roles will avoid unnecessary ego contests.

Reap the Rewards of a Successful Partnership

Starting a new partnership and contributing to a business is a fulfilling prospect, but one that is fraught with pitfalls to avoid. Many of these may be avoided by relying on sound legal advice and practices in the early development of the partnership.