



## THE SITUATION ROOM

Executive Overview for:

### How to make Business Partnerships Successful

*"Partnerships drive a significant part of the American economy. They are a great form of business structure.*

*The only challenge is that when two people or more are closely aligned in their ownership of an entity, they must also be closely, if not even personally, aligned on the direction the company will take over time and the evolving roles of the partners and any new people brought onboard.*

*Our theme is that it is critical to have ongoing "non-tactical", strategic partner meetings on a regular basis to manage what, hopefully, is a successful evolution of the business."*  
- YourBoard.US

1. The two greatest reasons for stress in a business partnership.
2. The two steps in reducing the probability of serious "Partnership Stress"
3. The two primary agenda topics for your Strategic Partners Meeting.
4. How partner families can become part of Partnership Stress.



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A very common form of business structure is the partnership. The partnership can vary in percent of ownership but the closer it is to 50-50% the more effort it takes for both parties, and their spouses and families (in and out of the business), to make it work.

A large majority of partnerships are formed when the business is very young in its development. Everyone is excited and working very hard to make the business successful. It is the honeymoon period of the business. "You may be poor but you are in love."

In any type of partnership, including marriage, it takes an ongoing commitment to assure productive longevity because there are a lot of things that change and develop during the evolution of the business and the partnership. In many cases there are people in the second row of the business partnership and children who at the beginning did not have a vested interest but do now. This reality puts additional stress on the business partnership arrangement. This "partnership stress" can develop whether the business is only moderately successful or hugely successful.

I certainly don't mean to imply that all business partnerships automatically encounter serious problems. Many are very successful, but generally there is some periodic partnership stress that needs to be addressed or it can either significantly impact the business or at least keep the business from reaching its full potential.

#### **A few short thoughts on how to improve the probability of a successful business partnership:**

Remember, usually at the outset, and even for several years, the partnership is going through its honeymoon period and this becomes the perfect time to set up communication processes (rules) that should last forever.

Sometimes business partnerships come under stress because of "trust" issues. The two greatest reasons for stress on the partnership are:

- The partners want to take the business in a different direction i.e., growth and new investment vs. staying the size you are and harvesting the profits; buying someone out or adding a new employee or starting a new division, introducing a new location, to name a few.
- One partner or the other feels that the workload, risks factor, investment levels, authority, pay, etc. are unevenly spread between the parties. It may be something that started that way or it may have evolved over time.



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Many times, it becomes the spouses that feel the balance between risk and reward is not even, or that the workload is not fairly proportioned.

The two critical steps in reducing the probability of serious partnership stress," that can move to partner conflict and can be hazardous to your emotional health and the health of the business are:

- A. Agree early in the partnership to specifically discuss and document each partner's role. All of the responsibilities, individual objectives, initiatives, compensation, bonus and profit distribution plans, etc. should be documented. Talk through as much detail as possible and write it down. Even though trust, camaraderie, spirit and optimism are all running high during the first phase of a business partnership, and appear that this type of conversation seems inappropriate, it is a critical element to raising the probability of a successful long-term business partnership.

Note: If you slightly modify the RROI-Position and Performance form, and separately reference the YourBoard "compensation" segment you will have most of what you need to outline the partnership commitments to the business and each other.



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- B. Partners in small businesses talk to each other often. In most cases, daily or weekly and in some cases, hourly.

Because of the nature of small business, 99% of these conversations are tactical or operational. That is just a fact. Everyone in a small to mid-size business must work very hard in the business in order for it to be successful. What needs to happen, however, is to set some time aside, on a monthly basis, to go offsite and have strategic discussions on the business. No operational discussions allowed for two hours, over a meal. The discussion must go back to the “partnership charter” that the partners initially set up and agreed. It is important to re-visit all of the original plans to be certain you are evolving those original agreements as the business changes. This is when the partners address strategic “big picture” issues and opportunities.

**There are two categories of topics for your monthly strategic partner’s session.**

1. **Agenda Item 1** - Discuss your roles, responsibilities, goals, initiatives, compensation and so on, to be certain the partners still agree on their roles, workloads, comp plans etc. If things have changed over time, or the workload has shifted, that should be discussed and potentially the workload, risk and investment level will need to be re-leveled again. The Agenda Item 1 is all about the partners and where they are in life as it relates to the business. Flexibility, understanding and fairness (as in any marriage) are important in dealing with the natural changes that will occur on an ongoing basis in any business through the life of the partnership.
2. **Agenda Item 2** for the monthly partner meeting is related to the business strategies and plans, and the organization status and plans.

Where you go from here strategically with the business can change from your initial thoughts when we started the business or when you were small. Things will always change over time. This is where a separation between partners can begin to develop.

Maintaining general agreement on the strategic direction of the company with all of its related impacts to individual risk, investment, profitability etc., is critical to the future of the partnership and the business. Using the “Strategic Plan” format laid out on the YourBoard.US website will allow the partners to discuss difficult options and strategies as the business moves forward. The original business model almost always changes and it is so important to discuss those changing dynamics as you go.



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These discussions have to be separate from tactical operating discussions and need to result in a collaborative philosophy on how we move forward or, in some cases, an agreement on how the partners move forward separately. It is deadly not to have the discussions until one partner or the other is ready to throw in the towel. Monthly, off-site strategic discussions on the direction of the company and organization are critical to the success of the partnership, financial results and the organization. It is also critical to the partner's personal relationships.

One tactic that I have seen successfully employed with business partnerships is to bring one or two outsiders in who are trusted by all of the partners, who have appropriate and pertinent business acumen and experience to be advisors to the partnership. This arrangement is different than an Advisory Board concept.

For both Agenda Item 1, which involved the working relationship between the partners and Agenda Item 2, that is related to the strategic direction, strategies and organization of the business, having trusted outside advisors attend your monthly sessions once in a while can be very, very worthwhile.

While you may think this item is not worthy of discussion, I have witnessed many business partnerships go into stress because the second tier family members, primarily the spouses, hear too much about the "stress issues" and get overly concerned and involved. Good partners, especially if they are also friends, can get through stress and forget about it the next week. When the families of the partners hear various views on the stress issues it takes a lot longer to get things back to normal, even when the stress issues are resolved. The best practice is to have an informal pact between partners to deal privately between themselves (and their advisors) with the issues of partnership and running the business and not involve outside friends and family.

Telling spouses, family and outsiders about "stress issues" in the business is like the half-life of a medication. You can stop the medicine today but the effects will linger on for a much longer period. It is not emotionally wise to involve other people in your "partnership stress" situation, unless of course, it is decided to dissolve the partnership.

If you recall, Don Corleone of "Godfather" fame always made sure his wife and children were shielded from the facts about the "family business".



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