# The Partner Trap:

## Escaping the Cons of Business Co-Ownership

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Over the last 20 years as a small business attorney, I have witnessed the emotional and financial devastation resulting from toxic business relationships. The breakdown of a relationship between co-owners can cripple any company. Employees, vendors and customers are typically pulled into the eye of the storm, causing widespread damage. When the co-owners are family members, a fallout is even more devastating. Yet rarely are the challenges of owning a business with one or more other people talked about candidly, leading far too many people to walk down the aisle and say "I do" to a business marriage without adequate thought and planning.

In 2014, after handling four business divorces in one year, I started giving presentations on The Partner Trap and writing a book by the same name. My intent is to help people evaluate whether to own a business with other people, how to structure co-ownership, and what to do if the relationship goes sour. Here are a few tips for escaping The Partner Trap.

### Tip #1: Avoid the "Crutch"

No one actually says "I need a crutch" yet too often it is the sense of inadequacy that propels someone into a business marriage. The story looks something like this: a woman has an idea for a business. She knows the path she wants to carve out in the market and how to navigate the path. Yet, she fears embarking on her entrepreneurial journey alone. So she offers up her provisions – her money, ideas and know-how – to another person who makes her feel more secure on the journey, but that partner makes her no more secure, or capable, or likely to succeed. Don't ever let it be your insecurity that leads you to seek a partner, and make sure you're not giving up more than you are gaining.

### Tip #2: Consider the Alternatives

Certainly there are many pros to partnering with others to grow a business. No one person has all of the skills and resources needed to accomplish their goals. This leads founders to seek out people who can provide labor in exchange for equity ("sweat equity"), provide capital, or both. Benefits of a partnership include having a teammate with skills you lack, existing vendor or client contacts, or industry expertise.

Ask yourself whether you can enjoy these benefits without sharing ownership in your business. For example, can you instead enter into a contractual joint venture agreement, which can be terminated if things do not go as planned?

### TIP #3: Date Before You Marry

Often people start a business with a friend. Just because two people get along well socially, that doesn't mean they can have a successful working relationship. The only way to test that theory is to work on professional projects together to determine whether compatibility felt over a glass of wine is sustainable when burdened by business demands.

### TIP #4: Understand Your Relationship

Being aware of productive versus destructive differences is one way to make a positive choice for a business partner. To illustrate, consider this match-up:

The Dreamer & the Doer: This dynamic arises when the creative force behind a company, the dreamer, is constantly cranking out new ideas. The doer has the operational savvy and is left to execute all of the ideas. Problems rise if the doer is implementing ideas with little or no help from the dreamer.

It is critical that you understand the dynamics of your relationship, your own traits and the needs of your partner and regularly make adjustments to maximize the benefits of your differences.

### Tip #5: Sign a Business Prenup

A business marriage should not be entered into with only a handshake. Co-owners should agree on ownership (percentages of equity), control (how are decisions made and by whom) and compensation (what can the parties expect in terms of salary and distributions of profits). Fundamental terms to include in an "Operating Agreement" for a limited liability company and a "Shareholder Agreement" for a corporation deal with (1) what happens if an owner dies, or becomes disabled or incapacitated? (2) how will disagreements be resolved? (3) are transfers of ownership to other parties permissible and if so, under what terms? (4) do some owners have preferential treatment in terms of distribution of profits or upon liquidation?

### Tip #6: Before Your Serve Divorce Papers, Get Advice

If you simply cannot tolerate running your business with your partner any longer, pause long enough to get legal advice about your options before you take any action. In addition to your written agreements, state statutes, past practices and applicable case law impact your rights. Chances are you will irreversibly harm your best interests if you act precipitously, without counsel and forethought.