CHAPTER 1

The Rewards (and Risks) of Going into Business Together

"PARTNERSHIP" IS A SEDUCTIVE buzzword in the business world today. My phone company wants to be my "partner in communication," and my doctor at Kaiser Permanente wants to be my "partner in health." Company owners hear constantly about the virtues of becoming partners with their customers, their employees, their vendors, and even their competitors. The overuse of the term *partner* has stripped it of traditional meaning, which in business has been two or more people joining together, pooling their money and talents, and taking a risk. Partners are people out to create or build something—*together*. They are putting something at risk in the hopes of creating a sustainable venture.

This book is about business partners, for the most part without regard to their legal status as partners. They may be in a partnership or a corporation. They may own property together or be co-producers of a Broadway musical. What matters is that they have a duty to one another, and the actions of one partner affect the others. In this sense, partnership is a state of mind. Partners sink or swim—together.

The enthusiasm for partnering is rooted in a down-to-earth fact: You're much more likely to succeed in a business with a partner than without one. Entrepreneurs who have succeeded by pooling their strengths far outnumber those romantic figures, the lone entrepreneurs

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who have triumphed over all odds. *Inc*. magazine's annual list of the hundred fastest-growing companies typically shows that partners founded about two-thirds of them. Every year, partnerships likewise dominate *Entrepreneur's* annual list of the "hottest" companies. The vast majority of high-performance companies are started by people with partners.

Academic studies confirm the importance of partnering. Researchers from the Center for the Study of Entrepreneurship at Marquette University investigated a sample of nearly two thousand companies and categorized the top performers as "hypergrowth" companies and those at the bottom as low-growth companies. Solo entrepreneurs founded only 6 percent of the "hypergrowth" companies. Partners founded a whopping 94 percent, and many of those companies had three or more founders. In stark contrast, solo entrepreneurs founded nearly half of the low-growth companies.

Founding partners are memorialized in the names of some of the world's most successful and visible businesses: William Hewlett and David Packard, for instance, or Charles Dow and Edward Jones (who actually had a third partner, Charles Bergstresser). Sometimes partnership origins are less obvious. EMC, the world's largest data storage manufacturer, was founded in 1979 by Richard Egan, the "E," and Roger Marino, the "M." ("C" was a third person who did not make it to the actual founding.) The company that employs more people than any other on the planet, Manpower Inc., was founded by Elmer Winter and Aaron Scheinfeld. Compaq Computer Corporation was the brainchild of three Texas Instruments engineers. Intel was cofounded by Gordon Moore and Robert Noyce. Home Depot was started by Bernie Marcus and Arthur Blank. Even Microsoft, which for years many people thought was founded only by Bill Gates, was cofounded by Paul Allen. The list goes on and on.

THE ATTRACTION OF OWNERSHIP

People usually form partnerships because they want to own a business. In a partnership, you don't own 100 percent, of course, but for

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most partners owning part of a business is much better than owning none at all.

Having partners is often what makes ownership possible. Partners provide the missing link—the money, expertise, ideas, skills, connections, facilities, patents, whatever it happens to be—that an entrepreneur needs to make a go of a business.

What is it about owning a business that is so appealing? One answer is freedom. People are not free when they work for someone else. Freedom may be limited in a partnership (partners are accountable to one another), but there's a world of difference between being an employee and being a co-owner when it comes to freedom.

For many people, too, the desire to own a business stems from a creative impulse. Ownership is a way for them to build something of their own. Others see ownership primarily as the path to a less-elevated goal: wealth. Wealth as a goal is potentially troublesome in a partnership. Partners who define their goals in terms of personal financial enrichment have a special obligation to be explicit about their motives, because focusing on one's own financial gain won't necessarily lead to decisions that benefit the business or one's partners.

ADVANTAGES OF PARTNERS

Being a partner gives people more than ownership. Many people prefer to share the responsibility for the business. Some businesses by their nature require that more than one person be available and accountable. For example, doctors band together for the practical purpose of sharing on-call duties. In addition, being able to divide tasks along lines of interest or ability can make an enterprise not only more successful but also more enjoyable.

Partnerships offer people a chance to do things that they would not be able to do on their own, or to do them more successfully. Opportunities open up when people combine forces. Having partners puts more intellectual power at the top of the business. If you pit three co-owners against a solo entrepreneur, the three co-owners are going to out-think

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and out-strategize the single owner in most cases, as long as they don't devolve into interpersonal conflict, or what some researchers call "affective conflict." Partnerships also allow people to exploit opportunities more quickly, and in business today, speed frequently means the difference between success and failure.

From a psychological perspective, having a partner means having someone to share the emotional burdens of ownership. A partner can provide feelings of safety and reduced risk, a sense that "we're in this together." One of the biggest complaints of solo entrepreneurs is that no one understands the tremendous demands made upon them. Even spouses who try to be as empathetic as possible cannot truly understand all the complexities of starting and running a business if they're not part of it. For some people, the fears that have kept them from starting a business become manageable with a partner.

Advantages of Having Partners

- Your partner shares the burdens and responsibilities.
- Someone else can do jobs that don't play to your strengths or interests.
- Partnership opens up opportunities that otherwise would be beyond your grasp, including greater success.
- You can move faster to take advantage of opportunities.
- You can enjoy camaraderie with an equal instead of feeling alone at the top.
- There's the potential for synergy and better decision making at the very top of the company.

For other people, having partners is simply more fun than owning alone. If the only option were solo ownership, they wouldn't do it; the cost, in stress and worry, wouldn't be worth it. Being on equal footing with someone else in the business, someone you can't dominate and who can't dominate you, makes for a more stimulating relationship than you can have with any employee.

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Creating Synergy

The most exciting advantage of partnership is the potential it creates for synergy. By pooling their strengths, partners not only ensure the viability of their business, they also expand its possibilities.

A fine example of synergy is Enforcer Products, a Georgia company. On his own, a laboratory researcher named Wayne Biasetti founded Enforcer Products in 1977 to manufacture pesticides and home products that he had developed. Although he excelled in the lab, he needed someone else to handle sales and marketing—otherwise his creations would never leave the building. He brought on Jim Biggs as a partner to take charge of that side of the business. He could have simply hired a sales director, but Biasetti wanted someone as dedicated as he was.

As Enforcer Products grew, the two partners realized that there was a weak link in their business chain. They needed a third person to handle administrative and financial issues for which neither had the skills or patience. They found Ed Brush and made him an offer that included ownership. Like the three legs of a stool, the three partners gave the business a stability and solidity that it would have lacked had one of them not been there. Together they were able to grow Enforcer Products to the point where the whole was far greater than the sum of its parts. In 1997, the partners sold their company to National Service Industries.

Partners can also achieve synergy by taking advantage of less obvious differences. For example, Phil Higginbotham, an energetic and successful orthodontist in Spartanburg, South Carolina, had grown his professional practice to the point that he couldn't accept any more patients. He needed to bring on another orthodontist if he wanted to continue growing. Higginbotham wanted to find an orthodontist with whom he would be compatible but who would also complement him in some way; in other words, he wanted to create synergy in his practice.

Higginbotham asked me to do personal styles and values profiles of him and a candidate for partnership, Eric Nease, to see whether they would be a good fit. The tests revealed that they were very similar in their values but sharply different in their personal styles. On one test,

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their scores were virtually identical in three of the four categories, but they were almost diametrically opposed in the fourth. The test identified Higginbotham as a strong "feeling" person and Nease as a strong "thinking" person. The difference is significant in terms of how people look at the world, how they interpret what is going on around them, and ultimately, how they interact with others.

The crucial questions in such situations are always: Will our differences make us stronger or tear us apart? Will we get synergy or just trouble? I delve more deeply into this tricky question in chapter 8, but as a rule, the greater the differences, the greater the potential advantages, but also the greater the risk of conflict. Higginbotham discussed the test results directly with Nease. Together they used the results to hash out what the difference in their styles might mean on a day-to-day basis, how they could use the difference to their advantage, and what they would do if that difference got in their way.

Higginbotham elected to ask Nease to join his practice. Nease, having seen how thoughtfully, respectfully, and openly Higginbotham operated, decided he wanted to practice with him. How is the partnership working out? The difference in their styles "works out great," Higginbotham says, "because it is clearly advantageous to have both types in a practice. For example, we've had a couple of instances come up where I feel real sorry for a person, but I shouldn't." Some people have so much empathy for others that it gets them in trouble. Now, Nease provides a reality check and saves Higginbotham from being taken advantage of.

Synergy can be created in many ways among partners. The potential is there whenever partners are willing to explore their differences as well as their similarities and in so doing, leverage their differences to their mutual advantage. When this works, partners wind up with more than they could have had on their own. The problem is, it doesn't always work.

THE PERILS OF PARTNERSHIPS

With so much riding on the success of a partnership—the partners' day-to-day happiness, security (often their mortgages), reputations,

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comfort in retirement, not to mention peace of mind—it's easy to see why partnerships are considered perilous. In a poll taken a few years ago, *Inc*. asked businesspeople if they thought partnerships were a bad idea. Two-thirds of the respondents said they were. When asked why, the majority said they disliked co-ownership because of the partners' "inevitable conflicts" and "unmet expectations." A poll by researchers at the University of Minnesota uncovered similar misgivings inside family businesses. About half of the second-generation family members working at such companies had doubts about being there. The main source of their unease was, again, interpersonal conflicts. Failed business partnerships—and their attendant broken promises, financial ruin, and litigation nightmares—litter the business world and leave a deep impression.

Countless conversations with professional business advisors have convinced me that most of them are similarly against the idea of having partners. The reasons they offer are always the same: It's too difficult for partners to get along, partnerships are too hard to get out of, and when a partnership fails, the cost is enormous. (In private, some advisors jokingly admit that their own unhappy partner experiences have something to do with their skepticism.)

Of course, no one ever enters a partnership expecting serious conflicts. Advisors rightly point out that even when the probability of conflict is low, the risk may still be unacceptable if, as it often is, the cost of a failed partnership will be high.

THE COSTS OF FAILURE

People often jump blithely into partnerships because they are unaware of the costs of failure—and no wonder, since nobody contemplates failure when starting up. It may be difficult to assign hard numbers to these costs. Still, they can be enormous, and prospective partners should look at them carefully.

Every conflict among partners exacts an emotional toll. These conflicts can destroy lifelong relationships. They can consume partners'

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every working moment, and sometimes every waking moment, for extended periods of time. They exact a toll not just on the partners themselves. I've heard partners refer to the stress on their spouses as "collateral damage"; some say it was that kind of strain that forced them out of their partnership.

Conflicts need not be profound or dramatic. Low-intensity wars can be costly, too, because they often make partners underperform. Nagging dissatisfaction, perhaps a feeling that the partnership's terms are not fair, can result in a partner's dragging his or her feet. Underperformance can become chronic, so that for months or years the partners achieve *less* than they would have on their own. Not only is synergy absent, sometimes there isn't even basic cooperation.

I saw a classic case of this a few years ago. Two partners had not gotten along well since starting their Philadelphia consulting firm fifteen years earlier. For most of their time together, they had been in a low-grade conflict. They called BMC Associates to see if there was any hope of ever getting along.

In a nutshell, although the partnership was nominally 50–50, one of the women, "Janie," felt dominated by the other, "Roberta," and resented it. Feeling dominated and unappreciated caused Janie to put in less effort than she had initially. Pulling back was a passive-aggressive way of communicating her intense dissatisfaction to Roberta, but it was the only way she knew how to get it across. This behavior backfired, however, because Roberta took Janie's underperformance as confirmation that she was not equal to the job, so Roberta felt justified, even forced, to become more dominating. In a classic negative spiral, the partners suffered a great personal loss and the company suffered a significant, if difficult to measure, loss to its bottom line.

Even if partner underperformance is slight, the long-term cost to the underperforming partner, the other partners, and the business can be enormous. Even low-level conflict directly consumes inordinate amounts of partners' time and energy. It never ceases to amaze me how totally their time is eaten up by such conflict. Productive income-generating work by the partners can grind to a halt. When measured by partners' salaries and benefits, the total cost to the business of this lost time is staggering.

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The Cost of Conflict Among Partners

- The personal emotional toll on the partners, their spouses, and others close to them
- The toll on the relationships among the partners
- The loss from having a partner underperform, sometimes for extended periods of time
- The time lost by partners who must spend hours and days away from management and income-generating activities
- Job dissatisfaction, high absenteeism, and lost productivity among employees who get swept up in owners' battles
- Costs associated with the departure of employees (often the best ones) who want to escape the conflict
- Mediation, arbitration, or litigation costs
- The expense of buying out a partner's interest
- Lost revenue from the loss of the partner
- Recruiting expenses and time to find a new partner or employee
- Lost productivity for owners and executives who must integrate a new partner or employee into the company
- Litigation after a breakup related to broken noncompete clauses

Few things are more frightening to employees than owners' internecine battles. Even when employees are not directly involved in partner conflicts, they get caught up in them. It is common to hear about employees taking sides. A key employee in one company complained that the divisiveness was so bad that the employees should have worn jerseys for one or the other partner! It does not matter how much information employees have about what is going on among the partners; they can engage in a lot of "worry talk" even if they know next to nothing. As on-the-job stress increases, so does absenteeism. Productivity and job satisfaction can plummet—and the preoccupied partners may never notice.

What *will* make partners take notice is when they hear that employees are looking for jobs elsewhere. Even if partners are oblivious to

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dropping productivity, they'll take notice when their valued employees begin jumping ship. Some authoritative estimates put the cost of replacing employees at about one year's salary, which includes downtime, opportunity costs, finding or recruiting new employees, training them, and getting them up to speed. For employees in critical jobs, the estimates are between one and two years' salary. Estimates for associates—not partners—in law firms, for example, are typically around $350,000.

When partners become aware of the bottom-line costs of conflict, they may try to negotiate a resolution among themselves. If that effort fails, it is not uncommon for desperate partners to recruit their own accountant or lawyer to be a mediator. This rarely works. As soon as negotiations bog down, one of the partners will cease seeing the advisor as neutral, if, in fact, he or she ever did. At that point, the advisor becomes history, both as mediator and possibly as trusted advisor.

Partners mired in stalled negotiations may hire attorneys. Frequently, one partner will surreptitiously turn to an attorney for help. Inevitably, other partners find out, or suspect as much, and hire their own counsel since no one wants to feel unprotected. Before anyone realizes it, they have all slipped into combat postures. No one feels safe speaking openly to anyone else. In fact, attorneys will advise their clients against speaking candidly to their partners. Whether that is self-serving or just zealous defense of one's client is immaterial. The possibility of partners' resolving their situation slips from their grasp as soon as they hire advocates and surrender responsibility for dealing with their problems themselves.

The cost of litigating partner disputes can be enormous. A recent legal contest between two partners in a financial services business was estimated by one of them to have cost between $1 and $2 million. A battle among the co-owners of the Haft family businesses cost around $40 million in legal fees before a settlement was reached. Co-owners of any small company who litigate a garden-variety partner dispute can rack up fees approaching $100,000 with little effort.

If partners opt for arbitration over litigation, or if a clause in their partnership agreement mandates it, they won't save much money. Arbitration, like litigation, is an adversarial process, even though it oc-

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curs outside the court system and is private rather than public. Usually, a retired judge presides, and all the parties have their own attorneys. The lawyers submit motions, conduct depositions and discovery, present their evidence and witnesses, do their best to refute the evidence and the witnesses of the opposing counsel, and make closing arguments. The process looks shockingly similar to courtroom litigation. Arbitration's only real advantage is that the partners are number one on the docket. It does not last as long from start to finish as litigation does, but that is primarily because the process is compressed. Many lawyers who are forced to arbitrate cases hate it because it's so intense: All of the same ritualized war games go on, but at a faster pace. It is no wonder that a *Harvard Business Review* article recently concluded that arbitration in business situations has become "the nightmare that it was meant to replace."

In arbitration, as in litigation, partners are asking someone else to listen to the evidence, weigh it according to existing case law and statutes, determine who is right and who is wrong, and render a decision. The point is still to win. To achieve that goal, one partner must prove that the other deserves to lose. Relationships seldom survive the inevitable hardball tactics.

Not surprisingly, at least one partner will have to be bought out as part of the resolution of knock-down-drag-out cases of arbitration and litigation. Relationships cannot survive such a beating. When partners must buy someone out of the business to resolve a conflict, there are frequently additional costs beyond the price of the ousted partner's interest. In rare cases, partners have buy-sell agreements in place that assign a value that no one contests. More commonly, however, someone disputes the price of the buyout, necessitating a costly valuation. Valuations often fail to settle the matter, though, because valuations are also frequently contested.

My own family discovered how painful this kind of scenario can be when our family's business experienced a protracted and costly buyout dispute. Because of different values, styles, and management philosophies, one of the five families in our third-generation company decided to leave, more or less voluntarily. They invoked the

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buy-sell agreement, which had been drawn up years before and stipulated the method for determining the price of the buyout. Even though the valuation method was spelled out in black and white, more than seven years of active litigation ensued as people fought over the precise meaning of certain critical clauses. The cost in legal fees alone was enormous.

My cousins who left the company did exactly what many partners do when they leave: They set up shop close by and competed against the family business. Price wars ensued. The family company suffered because the business was disrupted. It's common in such breakups that after partners separate, they continue doing whatever they have always done but under a different name. It happens even with noncompete clauses in place. And because they often bear ill will toward their former partners, they compete with a vengeance. This is another cost of conflict among partners: having a new competitor who knows your business inside out and attempts to take your customers and your employees.

The toll on my family was devastating. People who had shared their lives stopped speaking to one other, though there was no hiding their anger and pain. The damage even extended to some people being conspicuously absent from family weddings and funerals.

The painful process my family went through plays out in communities everywhere. The stories are unique but sadly familiar. In Boston, the public watched the partners in Legal Seafoods as they slogged their way through their battles. New Yorkers watched this type of partner conflict play out for much of the last third of the last century as four brothers in the Dell'Orto family attacked and counterattacked one another over the vestiges of their family's culinary legend, Manganaro Foods. Family relations were never the same after 1961, when the brothers divided the business among them because of differences in personal and management styles. The legalistic, Solomonesque division of the 110-year-old business did nothing for the siblings' relationships, however. As so often happens, legalistic resolutions begat interminable legal encounters that kept the feud alive. For decades, the brothers went head to head selling Italian delights next door to

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one another, while dueling head to head in the courts over the use of the Manganaro and "Hero-Boy" names. Outside the courtroom, they didn't speak to one another. Only recently the brothers managed to reach a settlement—out of court.

One of the sons in the next generation, Anthony Dell'Orto, described how their fight poisoned their family relationships when he said he couldn't recall ever speaking to his uncle Salvatore's daughters, though they grew up side by side. "In pictures of my christening, some of my cousins are there and I don't even know who they are."

PARTNERS HAVE BEEN AN INVISIBLE GROUP

Considering the many advantages a successful partnership bestows and the horrendous costs a failed partnership can exact, you might assume there is a large body of research on what makes partners tick and what makes them stumble. Surprisingly, there isn't much written on the subject, even though business partners' success is tremendously important, not just to the individuals and companies involved but to the whole economy.

Business schools could teach students how to minimize the risk of partner disputes, but they do not. They are schools of business *administration*. They teach students how to run large companies. Although they have started doing a better job of teaching students how to be entrepreneurial, they teach next to nothing about how to be a partner. Even though they have taught students how companies can make "partners" out of employees, customers, and vendors, this "partner revolution" has to do, again, with administering a business, in this case through managing relationships to encourage loyalty to the company. Theoretically, if you are a Starbucks "partner" you will give more to the company than if management simply calls you an employee, but this has little to do with actual partnership.

Because most business schools' graduates who start their own businesses will have real partners some day, the schools' neglect of partnerships is hard to fathom. But business schools are not the only schools

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with this gap in their curriculum. Medical schools train physicians without regard for the fact that the vast majority of their graduates will have to struggle sooner or later with partners. The same is true of other professional schools.

Why has no one bothered to plug this obvious gap? I think the reason is that partners have been something of an invisible group, meaning that they operate beyond the range of the vast majority of researchers and consultants working in companies. While researchers are encouraged to investigate, analyze, and correct the bottlenecks, problems, and conflicts at all other levels, relationships between owners have been largely off limits. Likewise, consultants are rarely privy to the intimate details and internecine warfare among partners themselves.

Researchers and consultants do get to peek at the highest echelons (i.e., major stockholders, officers, and board members) of *publicly* held companies because laws mandate a certain level of transparency and public scrutiny. Not so with privately held companies. Co-owners of private, closely held companies do not have to file documents with the Securities and Exchange Commission about who owns how much of the company and how much each person makes. Few partners are willing to divulge this information for research purposes. Thus, they are free to remain a largely invisible group.

Mediation creates an interesting exception to the rule. Mediators, brought in expressly to help co-owners resolve conflicts in nonadversarial ways, have a unique window on the inner workings of partnerships. In mediation, nothing is off limits. Partners at loggerheads with one another cease being guarded and secretive. They will open their souls and pour out their stories. They actually have to be open and candid about their partnerships for mediation to work. Mediators cannot help them reach a resolution unless they dump all the messy details onto the table. The reality of mediating partner disputes is that when principals are wrangling over stock, money issues, or who is taking more than their fair share of perks, they are more than willing to reveal all, as long as they see a glimmer of hope that mediators can get them swiftly and safely out of their quagmire.

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WARNINGS FROM PAST PARTNERS

In mediation after mediation, partners have told me about the hopes and aspirations they started with and the problems and impasses they encountered as they went forward. I learned directly from them what makes partnerships tick—or not. Seven caveats for would-be and existing partners emerged from these discussions:

- If you think you are not partner material (e.g., not a team player), don't even try.
- Exercise extreme caution when selecting a partner.
- If you do not really need a partner, don't go there.
- If it doesn't feel good before you start, don't do it.
- Don't think that legal documents will keep you out of trouble with one another.
- If you are a co-owner and it doesn't feel good working together, work to fix it.
- If you can see ambiguities in your relationships with your existing partners, address them while you're still getting along.

Some people will never make good partners because they simply could not be team players. Ginger Spencer, a Florida real estate agent, is crystal clear about herself in this regard: "I could never have partners because I have to do things my way. Furthermore, I never want to be accountable to anyone." Knowing and accepting your limitations is a real strength.

Business and professional schools, along with business advisors and consultants, should be offering such warnings to their students and clients—but most of them don't. At best they offer horror stories of failed partnerships. Given the perils of partnership, it is easy to see why so many schools and advisors—and so many businesspeople—think having partners is a bad idea, but a lot of things are bad ideas if you do them without sufficient caution and planning (cases in point: scuba diving, skydiving, and mountain climbing). Business partnerships are no different.

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In the following section I present four critical questions that people should stop and ask themselves when contemplating taking on partners. I then address what people who already have partners can do.

FOUR CRITICAL QUESTIONS BEFORE JUMPING IN

Because getting into a partnership is far, far easier then getting out, you must ask the critical questions—and answer them honestly—*before* signing on the dotted line. Addressing them takes people a long way toward making partnerships safe and successful. The first and second questions are so simple that they are often overlooked. They are, however, important to ask and answer honestly. Keep in mind that the initial answers sometimes do not hold up under closer scrutiny.

Why Do You Want to Own a Business?

I discussed some of the possible motivations for owning a business earlier in this chapter. When people are answering this question, they tend to say what sounds good, but a superficial or socially correct answer gets you nowhere. This question is really about goals and objectives. It's about purpose. It's about expectations for the business. Is your reason for wanting to own a business to build an empire? Bake the best croissants in town? Achieve security? Become famous? Travel? Become the largest Murano glass wholesaler in New York City? Own the most sought-after interior design studio in the region? Make a million? Not have a boss?

You have to know your own and your partners' reasons for wanting to own a business. Then you have to make sure everyone's motives are compatible. To do otherwise is like starting on a long journey without knowing your destination. It can be done, but it takes some mighty happy-go-lucky travelers to do it and not be at one another's throats. As a rule, the smaller the business, the more similar your reasons for owning must be. Larger organizations allow co-owners more freedom to achieve satisfaction in different ways.

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Why Do You Want to Have a Partner?

For some people, having partners is a necessary evil. The thought of having partners nearly stops them in their tracks. Nonetheless, some of them slip into partnerships.

Others would start a business just to have peers to interact with on a daily basis. For these people, the business provides a special type of interpersonal contact that they crave. If they had to do it alone, they wouldn't bother.

Between these two extremes are those who want partners for the advantages that accrue from combining forces with others. Understanding exactly why you want partners is critical to preventing disappointment or a costly mistake. Many people have entered into partnerships without really addressing this question, only to discover, when their *need* for a partner has ceased, that they are stuck with a problem for which they had never bargained.

Peter, for example, had a novel idea for a computer software company that he thought could be worth a lot of money in a few years, but he wanted a partner to help him bring the idea to fruition. He had never started a business and did not believe he could do it on his own. Peter found a partner, Steve, whose experience in marketing appeared to be critical to growing the business. They both put in $50,000 and agreed not to take salaries for a year. Steve suggested a 55–45 split in Peter's favor, in recognition that the business was Peter's idea. Peter agreed.

Two years later, Peter and Steve received an unsolicited offer from a national company to buy them out for a huge sum of money. Peter was shocked at his good fortune but also had pangs of regret. Hindsight produced a very different picture in Peter's mind than the one he had had when he lacked confidence to be a solo entrepreneur two years earlier. He thought to himself that while Steve had done a perfectly respectable job for those two years, it was really his idea that had created the value. The $50,000 and a year without salary that Steve contributed paled in comparison to Peter's contributions. His view was that he'd relinquished almost half of his business, slightly over $2 million, in order to not feel alone.

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Peter's revisionist view may have been partly due to greed; also, he may have been underestimating his own lack of confidence now that he had experienced success, and he may have been underestimating all that Steve had contributed. A partner may provide the confidence that one cannot muster on one's own. Starting a business can be scary, especially alone. A person starting a business may have employees to talk to, but that is not the same as having partners who share the responsibility for the entire venture. Shouldering 100 percent of the burdens, both financial and emotional, is a daunting challenge. If having a partner brings nothing more than the confidence to move forward, the partner may be worth every penny. Alternatively, if Peter had fully recognized that he needed a partner simply to quell his fear, he might have explored other means of calming his anxieties.

Are There Better Alternatives Than Taking on a Partner?

Despite the advantages of having partners, they complicate life. The more partners one has, the more complicated and risky things become, so it is wise to ask oneself if there are better alternatives available. Peter might have hired a consultant to walk him through his own strategy, for example. He might also have secured his own financing and searched for an employee with marketing experience.

It may seem ironic that a book on partners would stress the importance of *alternatives* to having partners, but the inherent risks of having partners are such that people need to carefully consider the alternatives before jumping in.

Is the Person You Are Choosing the Best Partner for You?

Many people might make very good business partners, but many of them would not be good business partners *for you*. The issue is not whether a prospective partner is the ideal person, but whether that prospective partner is someone with whom you have a reasonably good chance of success. Choosing a partner is one of the most important de-

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cisions a person will ever make. This is as true in business as it is in marriage. Many people will spend much more time with their partners than with their spouses. For better or worse, partners tie their fortunes and their futures to one another. One's choice of partners will affect one's life in profound ways. The quality of the partner relationship will have a huge effect on how one feels about going to work in the morning and how comfortably one sleeps at night. The choice of a partner is the single most important decision most people will ever make about their businesses.

The essential elements of a successful partnership are

- a good fit between the partners' personalities,
- similar values,
- the ability to be a team player,
- compatible goals and clear expectations, and
- mutual trust and respect.

When prospective partners have assessed these critical relationship elements, they have a tremendous head start. Personality studies have demonstrated that while physical appearance governs our first impressions of people, it is people's personal styles that make living or working together day after day, year after year, either a blessing or a curse.

Values, the underpinnings of all major decisions, usually function just beyond our awareness. Even though values are difficult to assess, they are critical to the long-term survival of all partnerships. Sooner or later, an issue will arise whose resolution will depend on the partners' values. It might be over whether to fire an employee, or whether to invest personal capital to upgrade equipment. Regardless of the issue, if partners' values are not aligned, something will eventually make the discrepancy apparent to everyone.

Many people believe that starting a business with a friend is a safe bet because friends tend to share similar values. Sometimes they do. A classic example is two long-lost friends who bumped into one another at their twenty-fifth college reunion (see sidebar, p. 22).

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Close Friends—and Good Partners

Two Harvard classmates, Chuck Houghton and Bill Forster, bumped into each other at their twenty-fifth college reunion in 1993. They hadn't crossed paths since they graduated. At their five-day reunion, they discovered they were working only blocks apart in Manhattan.

Back in New York, over a series of lunches, they discovered how similar they were. They'd both climbed the corporate ladder (Forster as an investment banker, Houghton as a principal in a marketing and consulting firm); they were enjoying the good life; and they both harbored a private yearning to do something different, less conventional, more daring.

They noticed as their lunches continued that their conversations most often were about their shared passion for boats and the water. Forster had been sailing since he was a child and had a tremendous passion for wooden boats of all kinds. Houghton also had a particular affinity for wooden boats, especially ones handmade by a hundred-year-old company named the Electric Launch Company, or Elco.

Houghton's great-grandfather had bought one of the original Elco launches in 1893, and it was still running when Houghton was a young boy. But his passion encompassed more than his great-grandfather's boat, which is still seaworthy and is used every summer. Houghton cared deeply about the company and the people who made those boats.

Elco had a long and distinguished history. Founded in 1893, the company specialized in elegantly designed, handcrafted, long-lasting wooden boats with battery-powered electric motors. Many famous people owned Elco launches. Mrs. Henry Ford, who refused even to ride in one of her husband's early automobiles powered by what were known as "explosive motors," was the proud owner of an Elco electric launch that operated smoothly, quietly, and without "risk" of explosion.

A few decades later, when the boating public became enthralled with speed, the company switched to conventional powerboats and stopped making electric launches. Then, in 1949, a large corporation acquired Elco and essentially mothballed its operation. In 1988, Elco took to the water again when new owners took the company private. By 1993, though, Elco was about to sink for good.

Houghton had not only bought one of the struggling company's launches, he had befriended the company's owners. "When they met Chuck," Forster

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says, "they saw more than just a customer. Chuck was a devotee. He had a passion for the company's product." Houghton was already on the company's advisory board when he began trying to interest Forster in investing in Elco. At first, Forster says, he was "extremely reluctant" to get involved with Elco, "because I thought it would be a very challenging proposition, but not profitable."

Even after they had talked for over a year, Houghton knew that Forster still saw Elco as just another business venture. Then Houghton welcomed Forster aboard an Elco electric launch on beautiful Lake George in upstate New York. "We were out having a scotch and a cigar, riding along on this boat," Forster says, "and I looked at him and said, 'It's just not fair.' He knew that meant I had been seduced by this boat and that I was willing to sign on to this idea of trying to save the Electric Launch Company."

They both became shareholders in 1994. The next year Houghton became president and Forster, chairman. They assumed full control on January 1, 1996, and have worked together harmoniously since then. The partners are equal owners and hold the majority of the company's stock. They also have investor partners and employees with stock. Houghton handles day-to-day operations, and Forster spends only a few days a year at the plant but is always on call when his expertise is needed. Says Forster: "Chuck's running the show and I'm providing advice."

As for why Houghton so strongly wanted Forster as a partner, he says: "Having Bill as a partner brought certain high-level business skills to the table that I needed, and he gave me the confidence that we could succeed. He was also a good person and good friend—I could really trust him—and I knew it would be much more fun with him than without him."

As for Forster, his friendship with Houghton and the trust they had developed in each other were crucial to his entering the partnership. "I'm a realist, and I have a lot of experience in business," he says. "From a financial standpoint, this is a risky venture. I never would have done this if it hadn't been for Chuck. I've had many partners and I know how hard it can be, but I know that Chuck and I are similar enough and are looking at this from similar enough perspectives that it can really work. The two of us see eye to eye on a lot of basic values. Neither one of us is driven by greed, with respect to the Electric Launch Company."

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The Houghton–Forster example shows that a friendship can be a distinct advantage. A deep friendship can keep a partner from jumping to negative conclusions when another partner says or does something that sounds derogatory and hurtful. It may be a wellspring of trust, a key ingredient of successful partnerships. True friendship can help one partner to be understanding when another has family problems that wind up shortchanging the business for an extended period of time. A strong bond of friendship may be a sign of shared values and can be the glue that holds partners together when the business is under stress.

Unfortunately, partnerships between friends don't always work as well as the Houghton and Forster partnership does. I interviewed an emergency medicine specialist who thought a friend would be a safe bet for a professional partner. "I chose a person who was a good friend, thinking that because of our years of friendship, we shared similar values. I couldn't have been more wrong!" He explained what happened. "Because he was a good friend, we didn't write anything down. We didn't think we needed to. Then, the first time we had to deal with a sticky issue, it all fell apart. We couldn't have seen the situation more differently." The friendship died. The practice died. And so did this doctor's interest in ever having another partner.

Countless friendships are destroyed by people who believe that their friendships give them a leg up in business partnerships. They often quickly discover that the business world is uncharted territory for their friendship. The social and business worlds intersect at times but are very different. What works in one can be totally inappropriate in the other. In some cases, being friends may actually handicap those who want to become co-owners. They must face a couple of additional hurdles that non-friends don't face. One is that friends often *imagine* that they know each other better than they really do. Second, friends often resist conscientiously learning more about one another. ("We're friends; we trust one another. We're not going to start 'probing.'") Third, as the case of the emergency medicine specialist suggests, friends are less inclined than non-friends to document their business deal. (Again, "We're friends; we trust one another.")

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At the other end of the friendship spectrum from Houghton and Forster are Marvin Davis and Robert O'Leary, of another small upstate New York company, Romancing the Woods. They were not friends going into their two-person company, and they eschew the idea that it's helpful for business partners to be friends (see sidebar, below).

Good Partners—But Not Close Friends

Is having a strong friendship crucial for being good partners? Certainly not according to Marvin Davis, cofounder of a company called Romancing the Woods. Davis contends, in effect, that the more different partners are, the better.

"I think that good partners are not alike, do not think the same way, do not come from the same school, do not go to the same club. They have a dichotomy of thinking that contributes to the business," he says. "They don't have to drink together, they don't have to have dinner together, they don't have to socialize together."

All that they need in common, he says, "is a belief in the business." He and his partner, Robert O'Leary, really seem to have that. Davis is a former advertising executive from New York City; O'Leary is a highly skilled woodworker.

They met in 1991, when Davis hired O'Leary, who had a small woodworking shop, to build a gazebo on Davis's property in the Catskills. They decided to go into business together selling such structures, O'Leary recalls, the first time they sat down and relaxed over a glass of wine on Davis's new deck.

Says Davis: "I suggested to him that we [go into business together], and that I would put up any of the small moneys needed, and that he could continue in his business, but that if any business did come in [to the new company] we'd split the money. There was no plan, there was no written document—it was strictly off the cuff."

O'Leary describes the business as "tongue in cheek" in its origins. He recalls the initial conversation with Davis this way: "He said, 'I think I can sell this stuff,' and I said, 'Well, you know I can build it.'" Davis says he thought of their business as a "lark," hardly a real business at all. Although he and O'Leary went into business together in March 1992, Davis only began devoting much time to it in 1994, after his ad agency lost its biggest client and he decided to close down.

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Romancing the Woods is the only company in the United States devoted to reproducing rustic nineteenth-century outdoor designs. It is so good at what it does that it has been hired to do large projects for clients as demanding as Walt Disney World, the Winterthur estate in Delaware, and such historic sites on the Hudson River as Hyde Park and the Vanderbilt mansion.

Although Davis and O'Leary like and respect each other, working together for more than ten years has not made them into good friends. They both acknowledge that their personalities and backgrounds are so extremely different that they have had many ferocious arguments over the years. "We're not buddies," O'Leary says. "We don't hang out together." Davis expounds on the same theme: "We lead different lives. We have different friends, we have different interests."

Davis had had partners before, in the advertising business, and he readily admits that he had problems with some of them. "I was too demanding of my partners," he says. "I expected them to be what I was, and they weren't, and couldn't be. This says that I'm really one of the culprits [in his conflicts with O'Leary]. I'm just not a very loose kind of guy when it comes to business. I came from an environment that was much more structured. We'd get into a lot of arguments because he did things in a fashion that I was never used to."

Davis offers this story as an example of their "complicated relationship": Davis asks O'Leary to let him know where he's going when he leaves the plant during the workday. O'Leary replies, "I don't have to let you know." Davis interprets his behavior this way: "He doesn't ever want to get that trapped. There are a lot of little things like that that aren't big things, but they're there." According to O'Leary, "He doesn't understand some things about me and my lifestyle, and I'm the same way about him."

However much he and Davis may argue, O'Leary says, "Nobody goes home mad." The glue that holds the partnership together, he says, is that "we both really love the business" because of its strong creative element. "It's more of an art form—that's the fun part of it. And that's really what keeps us together."

If they were to break up, he says, "I'd probably be back to having a small shop of some kind. I could make a living and get by, but it wouldn't be the same. I'd apply a lot of what I've learned from my years in the business with him, but it just wouldn't be the same."

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I would agree with Marvin Davis that friendship is not a prerequisite for starting a partnership. But can it be advantageous? I would say most definitely, as the Houghton–Forster example shows. Friends or not, prospective partners need to explore the lay of the land when determining whether they should join forces. Chapter 9 examines how to discover whether values are truly aligned. People also need to explore why they want these specific partners, that is, what they think everyone will contribute and their expectations for one another.

People who are less than candid about what they want and expect from their partners are doing everyone a disservice. For example, Michael, who has a novel idea for a consulting business, asks Stuart to join him because he believes Stuart has a solid reputation and will be able to open doors easily. He does not tell Stuart his motivation or expectations. Stuart is under the impression that Michael wants someone he can trust to run the business professionally and proficiently.

After two years, Michael tells his partner that he's unhappy because he has felt personally responsible for bringing in 90 percent of the business. Stuart feels blindsided by this revelation because he had no clue what was expected of him. Furthermore, he is angry about the unspoken expectation because he believes that using social contacts for purely business purposes is unsavory, complicating and compromising friendships.

Prospective partners can reveal their motives in a way that benefits everyone. In the late 1990s, Tracy Bloom Schwartz was poised to buy her mother out of Creative Parties, Ltd., one of the most successful event-planning businesses in the Washington area. She wanted Sue Busbey to be her partner. Sue was their key employee and had proven herself for years as the one responsible for the administrative side of the company. Tracy and Sue were effectively running the company because Rita Bloom, the founder, had already transitioned herself out of management so that she could do what she loved most, planning events for clients. Even though it seemed perfectly natural for Tracy and Sue to buy Rita out and continue to run the company together, and they were already headed down that path, they decided that it would be smart to sit down and thoroughly explore the possibility of becoming partners, to make sure it really made sense.

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In the course of two half-day sessions, Tracy and Sue explored a broad spectrum of issues, including what becoming partners would mean to each of them, how their roles would change, and their expectations of each other. The discussions gave Sue the opportunity to see that she did not wish to take on the mantle of ownership. She felt being a partner was not right for that time in her life. After saying that she really wanted to remain a key employee, Sue expressed her concern that Tracy might take her bowing out as a rejection, which could create resentment. But Tracy assured her that she understood and valued her candor and that continuing in her employee capacity was perfectly okay. Now, some years later, they continue to work very well together.

IF YOU ALREADY HAVE PARTNERS

The moment people sign their papers and commit themselves to co-ownership, the question of selecting the right partners is passé. It's done. For many people the process was too hasty and not well thought out, but once the papers are signed, there's no going back. The challenge of staying healthy and conflict-free has just begun. Three issues are now of paramount importance.

Are You Paying Attention to the Relationships Among the Partners?

Even though most co-owners take great pains to ensure the success of their business, few do much to ensure the success of their partnership. For example, I have seen many co-owners do more to nurture their relationships with key managers in the business than they do to nurture their relationships with each other. Partners must realize that their relationships are of paramount importance to the success of the business and serve as a model for relationships throughout the business. If the partners are cooperative and open with one another, others take that as a cue for what is expected of them. If partners are tolerant of each other's shortcomings and help each other out whenever possible, oth-

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ers will treat coworkers in a similar fashion. Conversely, if partners fight and don't talk, employees will follow that lead.

Thus, it behooves partners to attend closely to the quality of their relationship—something that is far easier to do when the business is running smoothly. The need to dedicate time and energy to the partnership as well as the business never really goes away. Because every partnership is a dynamic, ever-changing, living system, co-owners who ignore it for long periods do so at their peril. People who have been partners for years need to continue investing in their relationships as a way of ensuring their continued success. Relationships taken for granted are relationships at risk.

Have You Worked Out the Details?

Over the years, I have asked countless people who were co-owners of successful companies and professional practices if their arrangements with their co-owners were clearly laid out. They've typically replied, "Yes." I then ask them if they mean that they've worked through and resolved all the questions that they think might arise about money, ownership, roles, and how their partnership may change over time. Invariably they pause and hedge their initial "Yes."

I have been shocked by the ambiguity that some partners tolerate in their deal. For example, they have not clearly resolved such issues as:

- what they will do with profits;
- how they would handle a serious financial downturn;
- under what circumstances they will take on another co-owner;
- how they will determine if each of them is performing satisfactorily, and what they will do if someone is not; and
- what they will do if one of them loses interest in the work but is still entitled to receive a salary.

Why have so many partners ignored such potentially contentious issues? Partners who are in start-up mode describe the intense pressure they feel to secure office space, hire employees, find customers, develop

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products, and bring in enough revenue to stay afloat. That's all true. It is also true, however, that many people are uncomfortable discussing and negotiating the topics that partners should examine at start-up. Many people are more comfortable negotiating with clients than they are with their own partners. Negotiating with "outsiders" is much easier because the guidelines for reaching a successful outcome are clearer and the personal element is not as strong.

Some of the issues that partners must negotiate are unavoidably sensitive. For example, can partners hire spouses? What about that star son or daughter? Which employees will report to which partner? Many issues are provocative for one partner or another—and partners tend to avoid raising such issues because they are not good at dealing with conflict. If they see a troublesome question looming, they blink and pray that it goes away. Or they say, "We'll deal with that if and when it becomes an issue."

Do You Know Where the Future Will Take You?

While many partner arrangements are ambiguous about present circumstances (for example, it is often unclear who is really in charge of what areas), almost all partner arrangements are ambiguous about the future. Future uncertainties are rarely part of partners' initial discussions but are fraught with danger to the partnership. For many existing partnerships, stepping out of the day-to-day fray and thinking hypothetically about what lies ahead may be an ideal way to address issues that were given short shrift the first time around. People toying with the idea of partnership, as well as those who already have partners, can benefit enormously from a structured process that introduces the complete range of challenges that may await them. As I have described, the perils of partnership are well worth avoiding. The time to explore, discuss, and negotiate agreements and commitments is now. Waiting for a conflict to begin addressing the remaining ambiguities in a partnership is like waiting for a fire before contemplating fire extinguishers and exit routes. Chapter 2 describes a structured process that leads to a written document that is the best insurance plan prospective partners can buy to ensure their success as partners.

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