

CHAPTER 2

Starting down the Right Path: A Partnership Charter

WHEN A COLLEAGUE AND I sat down at a conference table with BMC Associates' first clients—two partners, a father and a son, who were at each other's throats—they told us they had sown the seeds of their conflict when they met in their attorney's office to establish their partnership. Although the two of them fought regularly, their business was a resounding success if one just looked at the numbers. Two years after it opened, their New England seafood wholesale distribution company was running close to \$15 million in annual revenues. The profit margin was high because the partners continued to operate from one cramped room, with just four people in the office and two workers in the warehouse. The new company's meteoric success surprised everyone, owners included, but the partnership was a failure, fraught with tension, frustration, and anger. The acrimony between the pair threatened to wipe out the financial success of the business, and if it crashed and burned, it was certain to take down some important relationships along with it.

The partners hit a low point one hot summer afternoon, when they slipped into a shouting match in front of their employees. It wasn't long before the son, Jimmy, stormed toward the door. His father, Mike, threatened, "If you leave now, don't come back. You're out!" Jimmy hollered back without breaking his stride, "That's impossible! I'm president and I own 50 percent of the company!"

At the insistence of both of their wives, they contacted us and we scheduled a mediation retreat for the following weekend. After we had established the ground rules for the mediation, and after they both had had a couple of minutes to vent, they described how they began experiencing difficulties shortly after becoming partners. It seemed to Mike that Jimmy was taking his title of president too seriously. He wanted his son to have the authority but hoped he would take more time growing into it—a common wish among fathers in family businesses.

Jimmy considered himself quite capable and thought he had taken more time than necessary to assume the mantle. He insisted that he had proceeded slowly just to placate his father, and whatever he was doing, he was doing well. He offered by way of example how he had successfully renegotiated their line of credit with the bank. Mike's perspective was that Jimmy made him look like a buffoon by meeting with the bank's commercial lending officer without him. He felt insulted, especially because Jimmy never informed him before attending the meeting. Jimmy, on the other hand, thought he stood a much better chance without his father at that particular meeting because Mike and two of Mike's cousins had driven a previous company into bankruptcy only a couple of years before.

The cross fire between the co-owners was not contained within their partnership. Their key employee, who was a close friend of Jimmy's from college, felt targeted. Mike and Jimmy both thought he was doing an excellent job, but in subtle and not-so-subtle ways, they competed for his loyalty. When we interviewed him in the beginning of the mediation, he complained about being caught in the middle. Their battle made the entire enterprise feel highly unstable to him.

To get to the heart of their conflict, we asked Mike and Jimmy why they had decided to go into business together. We learned that before starting this company with Jimmy, Mike had run a seafood-distributing outfit with two cousins. Mike's grandfather had founded it in the 1890s and since then it had been in the family. Mike himself had forty

years of experience in the business and knew the industry inside out. Having seen all the things that went wrong under his father, uncles, and cousins, Jimmy believed he knew the pitfalls to avoid. Because Mike and Jimmy had always gotten along extremely well, including during the many summers Jimmy worked in the company while going to school, they both believed it would be gratifying to work together.

In an individual session with Mike, we asked what had moved them to set up the company the way they did, with Jimmy as president and Mike as vice president. Mike seemed a bit put off by the question. He said he really believed Jimmy would be good at this business.

We pushed Mike further on how they had decided on their management structure. He hesitated for a minute and then launched into the following story. When they had met with their attorney to answer questions regarding their shareholder agreement and articles of incorporation, the attorney had caught Mike off guard with two questions. He said the lawyer posed the two questions innocently enough. The first was, "Who will be president?" Mike told us there was only a deep silence in response. Although Mike had given considerable thought to taking Jimmy on as a partner, the lawyer's question took him by surprise. Mike had a long career in the business, had contacts and know-how, and was putting up the financing. Jimmy was a bright, freshly minted college graduate with plenty of energy. They had never thought about who would be in charge.

The question hung in the air. Mike glanced over at his son, who stared at their attorney and then shifted his gaze to the ceiling. With a pang of apprehension, Mike blurted out, "Make Jimmy president." Mike wound up being vice president and secretary by default.

The lawyer posed the second question: "And how will the stock be held?" Mike glanced again at his son again, and Jimmy—no fool—contemplated the ceiling once more and waited patiently for his father to decide. "Make it 50–50."

That seemed like a pretty remarkable story. Given their business history, the arrangement was peculiar. It created a structure that

Mike, even though it came from his lips, could not live with day to day.

Yet again, we pushed Mike harder on how he had made those decisions. At first he drew a blank. Then he became agitated as he recalled how his family had handled ownership issues in the past. When ownership of the business was passing to Mike's father and uncle, his grandfather picked Mike's uncle to run the business over Mike's father despite the fact, according to Mike, that his father was the one who was making the company successful. The uncle was considered by many to be alcoholic and irresponsible, but somehow none of this kept Mike's grandfather from making the uncle president and majority owner. The result was so much animosity between the brothers that they rarely spoke.

The poisoned relationship between them passed directly to the next generation. Mike recalled how he was forced to live with the legacy of his grandfather's decision because of his minority shareholder status and because he was forever under the management thumb of his inept cousins, who were also alcoholic, according to Mike. As Mike related this tale, his demeanor changed dramatically. He leaned back in his chair at the end and announced calmly, "Now I get it."

He explained to us that in the lawyer's office, without being aware of it, he had tried to right a wrong from two generations before. For the past two years, Mike had been wishing deep down that Jimmy would be grateful for what he had handed him on a silver platter: the presidency and half of the stock. "How could he be grateful" he remarked, "when I never even told him what his great-grandfather did and what I was trying to do to make amends? He was clueless, and it was my fault!"

When Jimmy came back in the conference room and heard the story from his father, he, too, understood their deal in a whole new light. Something instantly clicked in their relationship. They were no longer at loggerheads. They stopped sniping. Things opened up. It was as if a long-lost puzzle piece had been found. They finally had the conversation they should have had when they were establishing

their partnership. We were then able to discuss their different personalities and values without any of the tension that had been in the air for so long. In fairly short order we helped them negotiate a four-page agreement that resolved their issues.

Driving home from the retreat, my associate and I marveled at the irony of what had happened to Mike and Jimmy. They had set themselves on a collision course at the very moment they were attempting to safeguard their voyage. They had unwittingly ensured conflict between themselves in the very act of nailing down the details of their deal. But they were not unique in this regard. When we listened to the stories of our second, third, and fourth clients, we realized that there was a pattern. Even when serious conflicts do not surface for years, the origin of partner conflicts can usually be traced to the origins of the partnerships. Often it can be traced directly to the drafting of the legal documents that are supposed to protect the partners if they run into conflict. (More on this irony in a moment.)

During its early years BMC Associates was completely focused on mediating partner battles. Eventually, however, I became curious about partnerships that had not experienced conflict. I interviewed partners who claimed to be getting along very well about their start-up process, specifically whether or not they had gotten everything out on the table and negotiated all of the basic issues. "Sure," they would say. If I followed up by asking them whether there were any lingering ambiguities in their partnerships, they would usually tell me that there were one or two items that had never really been resolved.

These dangling conversations had not yet resulted in calamity, but were they a problem? More often than not, partners who short-circuited their initial negotiations felt uncomfortable. Not all of them certainly, but many knew they were on shaky ground with one another and that circumstances had been kind to them. Even though they were doing fine day to day, they knew that if circumstances changed they could wind up facing off on opposite sides of the negotiating table. Their unresolved questions were the Achilles' heel of their partnership. As long as these important conversations remained

unfinished, it was highly unlikely that the partners could realize their full potential as a team.

That realization of how critical it is for partners to negotiate and reach agreement on a full range of issues was the catalyst for developing the Partnership Charter. With the charter process, BMC Associates moved from conflict *resolution* to conflict *prevention*. We shifted from just repairing broken partnerships to helping partners achieve their shared goals.

REASONS FOR CREATING A PARTNERSHIP CHARTER

Some people have great ideas for businesses but never take the plunge because they are afraid of having partners and, for whatever reason, cannot do it alone. Countless co-owners operate successfully for years and then run into partnership glitches that destroy their businesses. Many other businesses never become as successful as they could be because the partners never figure out how to operate at their full potential. The Partnership Charter was designed to ensure that partnerships have a high probability of success and operate at their full potential.

A Partnership Charter is like a short course on how to create and manage a team of professional or business partners. In fact, it is the backbone of a course that I teach to MBA students at American University on how to manage a family-owned business. A charter is a necessary tool because few people have been taught how to be partners. It encompasses all of the topics partners need to cover as no other document or process does.

One of the main advantages of a Partnership Charter is that it provides a structure for people to address the issues that will make or break their partnership. Within that structure, the needs, priorities, personalities, and circumstances of the partners determine what is emphasized. The general charter structure covers three broad areas: business issues, relationship issues, and issues related to the future of the partnership. Each area is covered extensively in subsequent chapters.

Reasons for Creating a Partnership Charter

- To inform and enlighten people about the issues that create problems for partners
 - To provide a structure in which to discuss sensitive, difficult issues
 - To help people to be more open and honest with one another
 - To remove the ambiguity that exists in many partner relationships
 - To give partners or partners-to-be the time and space to focus on what they are trying to accomplish together
 - To provide exercises for translating personal styles, values, expectations, and fairness into concrete action items
 - To help people decide whether they really want to become partners
 - To help prospective partners get to know each other better and build mutual trust and understanding so they can leverage their individual strengths
 - To memorialize agreements about the partnership
 - To create a document that serves as a guide for the partners in the future
 - To have a clear statement of partners' intentions to give to attorneys who will draft legal documents
 - To greatly diminish the likelihood of misunderstandings and conflicts
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Creating a Partnership Charter gives people a much clearer sense of what they intend to do together. Many people become better communicators in the process. All partners who complete a charter feel more confident in themselves as a team because they know they have tested themselves. They've dealt with issues most partners avoid and have come through the process alive and together.

Does the process work this way for everyone? No. There are two other outcomes that we've seen. One is when people who are contemplating partnership work on a Partnership Charter and realize that they don't want to join forces. Their reaction to this realization is usually a mixture of sadness and relief: sadness that they will not be doing what they planned and relief because they see that it probably would not have worked.

The other outcome occurs when partners who have been working together for years decide to create a charter. They do it because they have experienced difficulty with their partnership, or they are in a transition, for example, taking on new partners. The people who are unhappy about their partnership use the charter process to determine whether they want to continue together. If they are able to work through their issues, then they go forward together. Partners who discover that they are incapable of working through the issues together usually conclude that they are highly likely to run into serious problems if they proceed without these agreements. They then shift gears and work on how they will dissolve their partnership in the most constructive way possible. The work they did on the charter usually helps smooth the process of separating.

For partners who are in transition, the charter process helps them figure out whether they want to go forward in their new configuration. Essentially, it operates like a road test. If you pass, that is, complete the charter, then you know you're good to go.

Partners who complete the charter process end up with a written document that records their understandings and serves as a guide as they go forward. A Partnership Charter captures their intentions, dreams, expectations, and agreements—their collective reality. It defines who they are as partners and what the vague word *partners* means to them. It does this so well, in fact, that many partners who are at the beginning of their partnership give the document to their attorneys, who rely on it to draw up partnership, or shareholder, agreements and buy-sell agreements.

A Partnership Charter is not written in stone; it's a living document that changes just as the individual partners and the partnership change. Partners must make a commitment to review it periodically and revise it as needed. The periodic reviews help ensure that partners continue to pay attention to any changes that are taking place before it's too late to do anything.

Does a Partnership Charter guarantee there will never be destructive conflict among the partners? No. But it forces partners to look more closely and thoroughly at who they are and how they want to work together. It keeps people from sidestepping the sensitive issues and allowing ambiguity to hide within their arrangement. A charter cannot

totally preclude the possibility of destructive conflict, but it is probably the best insurance partners can buy. It is the most effective way to build confidence in the partnership.

WHAT A CHARTER SHOULD COVER

The topics that comprise a Partnership Charter came straight from partners themselves, not from a theory of partnerships. We listened to how our mediation clients got into trouble and constructed the charter based on their experiences. Our “theory” was simple: If an issue got those clients into trouble, it could get someone else into trouble, so we put it in the charter.

For example, over a decade ago, Mike and Jimmy’s rudimentary “charter,” if it could really be called that, was little more than a document of agreements that resolved their points of contention. It addressed primarily how, what, and when they would communicate important information to one another; their respective titles and what they meant; and their roles both inside and outside the company (i.e., with employees, the bank officers, and others). We added an ounce of prevention by giving them guidelines for dealing with any future conflicts. We did not realize at the time that they had given us the beginnings of a charter.

Subsequent clients taught us additional ways that partners could get stuck. In the beginning of our work, each new set of partners taught us something new, but over time, we found we were dealing with fewer and fewer new issues. Gradually, as issues and solutions both fell into increasingly distinct patterns, we developed a template for the Partnership Charter. We became confident that the charter process was covering all the bases.

HOW A PARTNERSHIP CHARTER IS DIFFERENT FROM A LEGAL DOCUMENT

The documents that Mike and Jimmy’s attorney drafted had given them a false sense of security. Having the corporate documents in hand

TABLE 2.1 Comparison Between Partnership Agreements and Partnership Charters

Partnership Agreement	Partnership Charter
Legally binding document; meant to create legal safeguards that compel certain conduct among the partners	Not legally binding; meant to instill and help maintain a collaborative partner spirit
Serves as a contract that creates partners' rights, duties, control, titles, and ownership shares	Serves as a guide for running the business and dealing with each other, as well as for expectations, fairness, and handling potential crises
The product—the written agreement—is the objective	The process of reaching understanding is primary; the product—the charter—is secondary
Written by lawyers with partners' input and contains many standard clauses	Written by the partners, sometimes with the help of mediators, and is highly idiosyncratic
Meant to withstand the test of time and not be altered excessively	Meant to be reviewed and revised on a regular basis; seen as a living document

SOURCE: David Gage, John Gromala, and Dawn Martin, "Addressing Partnership Issues as a Preventative Measure," in *The Family Business Conflict Resolution Handbook*, ed. B. Spector (Philadelphia: Family Business Publishing, 2003), 112–16.

lulled them into thinking they had done everything they needed to for their partnership to really work.

Legally, they had done what was necessary. Since they were forming a corporation, they were required to have articles of incorporation and a shareholders' agreement. Interestingly, to start a business as a legal partnership takes nothing whatsoever on paper. *No written contract is needed* for two people to become partners. *Acting* like partners is enough to do it. Even talking about being partners can suffice. Because no particular contract is necessary, any legal documentation at all makes people feel they have been extra cautious.

Prospective partners should realize that legal documents serve a narrow purpose. They establish the existence of the partnership or corporation as a legal entity and specify the legal rights and obligations of the partners. They include items such as the place, name, amount of capital to be invested by each partner, and distribution of profits. In a very real sense, they are there to protect partners from each other. They are about limiting liability. That is why they are legally binding.

It is wise for prospective partners to state clearly in the charter's preamble—where they describe their purpose for drafting the charter—that their charter is not meant to be a legally binding document. The charter often informs attorneys writing legal documents about partners' intentions, but it should not take the place of those legal documents.

While legal documents are important and necessary to have, they stop far short of the breadth and depth that partners need. Take something as basic as ownership percentages, for example. From a legal perspective, it is necessary to get the exact percentages in writing. As Mike and Jimmy learned, establishing percentages and entering the number into a legal document without understanding how they were derived can be confusing and lead to trouble. In chapter 4 I tell a story of five savvy businessmen who agreed on percentages in their corporate documents, then some of them claimed a year later that they also verbally agreed to review those percentages after one year. Mediators were brought in to clean up the mess—essentially to complete the ownership discussions. The original discussions satisfied the legal requirements but fell far short of what the partners needed to work well together. I describe in chapter 4 what it means to have a complete conversation about carving up the ownership pie.

Finally, whereas a partnership agreement is meant to withstand the test of time with minimal changes, a Partnership Charter is meant to be regularly reviewed and revised. A charter is more work to create and keep current, but it is also more useful because its purpose is creating and maintaining a solid, collaborative working relationship.

HOW COMPREHENSIVE SHOULD A PARTNERSHIP CHARTER BE?

A Partnership Charter is comprehensive by design. It should include understandings on all the issues that could get partners in trouble at any stage of their partnership. Any given set of partners must thoroughly discuss their needs and reach consensus about what sections to include. Following are some guidelines:

1. If any one partner thinks something is important, it is usually reason enough to include it. Remember that in the life of a partnership, it only takes one unhappy camper to ruin the trip for everybody.
2. If you think you've already covered an issue, it behooves you to simply write it down and fold it into your charter. I have seen partners who believed they had already reached agreement on compensation, for example, but their agreement evaporated the moment they tried to capture the details on paper.
3. More is often better. Writing down agreements and sailing through a section that is not contentious is much wiser than skipping it and discovering later that it has become important. Any section that partners have really worked out, they can breeze through quickly.
4. If you have completed other types of documents that seem pertinent to working together, by all means add them. For example, the board of directors at SHN Engineering and Geological Consultants in California wanted to incorporate their mission statement into their charter. It fit perfectly.
5. Avoid skipping anything that feels like a sensitive issue. These are the most likely to cause problems.
6. Avoid the tendency to say, "We'll deal with that later if it ever becomes a problem." By that time it may be too late.

It is not essential for prospective partners to complete every section of the Partnership Charter; in fact, few do. What *is* essential is for them to

thoroughly review each section together and discuss its relevance. This keeps partners honest about what they have and have not worked out.

I cannot warn enough against the tendency to short-circuit important discussions. It certainly seemed that Rosie O'Donnell and the publishing house Gruner & Jahr had conducted less-than-complete discussions when they created their 50–50 partnership deal in 2001. *The New York Times* filed this report on the breakdown of their high-profile partnership in August 2002:

Whom exactly does a magazine named Rosie belong to? Is it the magazine's namesake, Rosie O'Donnell, the former talk show host and editorial director? Or Gruner & Jahr USA, the company that publishes the magazine? . . . The battle over that question has erupted into open warfare, with the erstwhile partners each hiring prominent lawyers to fight over who has ultimate control of the magazine's content. . . . The roots of the fight lie in the deal that turned the venerable but struggling *McCall's* into Rosie last year. Although the financial partnership is split 50–50 and Ms. O'Donnell's name is on the cover, Gruner & Jahr maintains editorial and operational control of the magazine. *It was a decision Ms. O'Donnell has rued from nearly the beginning of the partnership*, and that frustration has metastasized in recent months. . . . According to company officials at Gruner & Jahr, in the last month Ms. O'Donnell has threatened suit, behaved abusively toward employees and threatened to “bring the whole magazine down” (emphasis added).

Bring it down she did. More accurately, the partners' failure to resolve these questions up front brought the magazine down. Under either name, *McCall's* or *Rosie*, it is no longer published.

Rookies and veterans alike get into these kinds of predicaments because it is human nature to leave certain stones unturned. But that creates ambiguity, and ambiguity in the deal is a surefire recipe for disaster. Partners can go a long way toward avoiding conflict months and years later by conscientiously considering each topic of the charter and seeing how it applies to their situation.

WHY AGREEMENTS AMONG PARTNERS NEED TO BE IN WRITING

When in business, it is best to act in a businesslike manner. Even though some people believe partners should operate on a handshake, keeping a written record of intentions and agreements facilitates smooth relationships among people who have their names on the door and their savings on the line.

Putting the spoken word on paper has an almost magical way of moving people from vagueness to clarity. It's quite common for people who are discussing what they want to do as a group to verbalize agreement *before* they fully understand each other's meaning. I'll never forget a quotation I first discovered in college: "I know you believe you understand what you think I said, but I am not sure you realize that what you heard is not what I meant." Partner discussions are replete with topics ripe for misunderstanding, so any technique that promotes understanding reduces the likelihood of conflict.

Writing things down also *organizes* discussions. Putting pen to paper forces a team planning their partnership to be more thorough about their collective thinking. Through writing, they see issues that they might otherwise have missed and nuances that they might have skipped over if they were merely talking. The result is a more complete discussion, which is never more important than when partners are discussing their deal with one another.

Having a written document is necessary because it creates a reliable record. Time corrodes the collective memory of partners even faster than it corrodes the memory of any one individual. That is because if only one partner's memory changes, the collective whole is lost.

For example, two partners nearly split their company after operating successfully for two years because they disagreed about who would run the company after the initial two-year period. The woman who was vice president for the first two years claimed that they had agreed to switch to her being president. The woman who was president for the first two years insisted that they had agreed to switch *only* if her own performance as president was lacking. Since they both thought she was

doing a good job as president, she didn't want to switch and risk a turn of fortunes. The one who had been vice president for two years felt insulted and wanted her turn. She insisted that she could do at least as well as her partner had done. They became locked in a deadly battle over what hadn't been documented two years earlier.

Many disputes among partners are essentially battles of memories. It is easy to see that the circumstances and motivations of partners change over time in unpredictable and subtle ways, altering individual recollections. In this example, it may have been that the partners discussed switching the president's role after two years but never actually agreed to do it. We'll never know. The mediators who worked with them learned in a separate caucus session that the president partner had lost confidence in her vice-president partner. Though she denied it, that loss of confidence may have resulted in a conscious or unconscious shift in her memory. A written document would have saved them significant turmoil and expense.

A Partnership Charter is a very personal and private document that each partner will share with only one or two other people—a spouse, lawyer, accountant, or some other trusted advisor. Some people would argue that such information shouldn't be put in writing because they worry that it might be read by people for whom it wasn't intended. Other people believe business should be conducted on a handshake, and others believe that they can better keep their options open by not writing down what they are agreeing to.

The privacy concern is understandable. Because it embodies the basic "deal" among the partners, a charter is highly confidential and requires safekeeping. It is important to be careful not only with the end product but with interim drafts. Partners need to have a system for safekeeping of important and confidential business papers. The charter should be one of those papers.

People who fear that writing down their agreements will be misinterpreted as a lack of trust are hanging their trust on a very fragile hook. If trust is present, putting agreements in writing will not diminish it. If trust is so fragile that it will crumble if agreements are written down, then it was an illusion in the first place. *Some* partners can get by with-

out documenting their agreements. The number of such partners, however, is much smaller than people imagine. Beware of anyone who says that he or she can't trust someone who desires more than a handshake.

People who resist putting agreements in writing because it forecloses their options are especially untrustworthy. In effect they are telling you up front that they reserve the right to renege on their agreements.

The dangers of *not* putting agreements among partners in writing far outweigh the risks of putting them in writing. They include

- not clearly understanding what the other partners mean,
- having incomplete discussions of issues,
- not having a clear record of what was agreed to, and
- partners conveying to other people different impressions of what they thought they agreed to.

Putting the partners' intentions, desires, and agreements in writing reduces the danger for all would-be and existing partners.

A CASE HISTORY

A Partnership Charter is both a process and a product. The following chapters use various partners' stories to describe the process of creating a charter. To give a clear picture of the product, I have included the entire Partnership Charter of one set of partners in the appendix. A caveat, however, is in order: No charter should be thought of as a model for anyone else's. It is not a compilation of best practices, and there is no definitive Partnership Charter. Even though Partnership Charters all cover roughly the same topics, any one charter is as unique as the partners themselves. What one set of partners agrees to is a result of their individual and collective histories, personalities and values, and business and financial situation. Their plans for themselves and their company represent their particular blend of dreams, aspirations, and circumstances. Their plans will never look the same as those of another group.

Star Systems is the name I've given to the company whose charter is in the appendix. The charter is real; I've changed the names of the company and the individuals, along with other identifying details, to present information that is very personal. I've retained the substance of their lives and circumstances. Most important, in the following chapters I describe how they actually dealt with common partner challenges and dilemmas. Even though their choices were not what someone else might choose, their process is informative and their end product is, for them, a sound one.

Here is how Star Systems' partners came together. For our purposes, it began when Jeff Davies, the financially strapped sole owner of Star Systems, told his CFO, Beth Nelson, that he was interested in her becoming his partner. In truth, it was less "interest" and more financial necessity—but Beth knew that. She'd been around when Star Systems was flush, before Jeff put himself, his family, his house, and the business itself on the line to get rid of his two former partners, his brother and sister.

Beth knew that Jeff was forcing himself to take on partners because he saw no other way to stay solvent. He'd been burned so badly by his experience with his siblings that he never wanted to hear the word partner again, but now he had no choice.

Jeff and his siblings had inherited equal portions of the business in the early 1990s when their parents died within ten months of each other. The company, then very profitable, sold medical laboratory instruments to research labs, biomedical corporations, and university hospitals. During all of the years that their parents had run the business and Jeff and his brother and sister worked for them, and even in later years when their involvement was limited and superficial, the three siblings got along reasonably well at work. There were occasional flare-ups, but they subsided quickly. The mother or father, after determining who was out of line, had to say only a few words to restore a modicum of decorum. This situation reminded Jeff of when he and his brother and sister would fight as kids. A fierce look or a sharp word from either parent and the kids would straighten up in short order.

Jeff's view was that the three siblings were a disaster waiting to happen. He believed that his older brother, who was president, felt threat-

ened the minute Jeff entered the company and that both brothers resented what they perceived as their younger sister's histrionics and her dabbling in the company. She would come and go as she pleased, totally unpredictably.

In the ten months between their mother's and father's deaths, the siblings observed an unspoken détente. This proved to be the calm before the storm. All hell broke loose the week after they buried their father. The brothers unleashed their pent-up resentment about one another. The older brother told Jeff that he had never trusted him and believed Jeff was plotting to take over his position. Jeff did want his brother's job because he thought his brother was not up to the task and too insecure to be a good leader. The two brothers had divergent ideas about the company's direction and how finances should be managed. The older brother was much more content than Jeff with the course their parents had set for the company and more satisfied with their conservative financial approach.

When the fights broke out, there was a lot of shouting in private and some talking, but a dearth of listening. Accusations flew, some in front of employees. The power struggle between the brothers was now free to erupt without censure. The older brother tried to get his sister to side with him. He was successful, but only for a time; then she would side with Jeff. That never lasted long, however, because Jeff couldn't tolerate her capriciousness for long.

For over a year they bickered over who would buy out whom and at what price, until Jeff bought out both his siblings by leveraging almost all of his personal and business assets. The corporation would pay each of them more than a million dollars over ten years.

Jeff's personal financial situation now weighed him down severely even though the company was still highly profitable. The buyout had precipitated many of his difficulties, but his lifestyle exacerbated the situation. He was loath to downscale, as was his wife, and he wanted desperately to keep the business.

As much as Jeff hated the thought of having partners again, it seemed to be the only option available. His accountant assured him that this time could be different because he would have more control since

he would not be one among three equals; moreover, he'd be able to choose his partner or partners.

Beth was a natural choice in most respects. She had been working for Star Systems since she had earned her CPA after college. She was the consummate insider, always keeping the company on the cutting edge, always on top of the smallest details of the company's critical relationships with suppliers. Jeff's father had made her the CFO. Everyone trusted her, and she had been the only non-family member on the board of directors. Beth had done an incredible job staying neutral during the siblings' wars and was trusted by all three of them to work with their accountant on the buyout. She had wanted to be Jeff's partner earlier, but he could not bear the thought of any new partners. She did not have much money, Jeff knew, but she was the one person he could remotely imagine having as a partner.

Jeff and his accountant sketched out a deal whereby he would sell the minimum amount of stock possible, receive enough cash to give him some short- and long-term financial relief, and, of course, not give up control of the company. They both knew that Beth understood what the company was worth, so neither thought that valuing a portion of it would be an issue.

Beth and Jeff met to talk numbers. They agreed that Star Systems was worth about \$4 million, so if Beth were offered a 10 percent stake, it would cost her \$400,000. That much was pretty straightforward. Then the conversation got interesting. Jeff suddenly realized that Beth was negotiating *with* him and not *for* him. They had always been on the same side of the table in negotiations with other companies, and now, suddenly, their relationship was shifting. Beth was saying that a 30 percent discount for a minority interest and lack of marketability was reasonable, putting the cost to her at \$280,000. She also thought that given all that she had done for the company and Jeff, it would be reasonable to think of her putting up just \$80,000 and paying the rest over five years. The bottom line was that this was all she could afford.

Jeff was forced back to the drawing board. The deal wouldn't work, at least not with only Beth as his partner, and Jeff knew of no one else inside or outside the company that he was comfortable considering in

that role. Beth told him that she had a friend, Sarah, whom she thought would be a perfect fit from a professional standpoint; she just wasn't sure about how Jeff and she would take to each other. As Beth described her friend, images of his sister flashed into Jeff's mind. He immediately called a halt to the conversation.

A month later, Jeff asked Beth for more information about her friend. He agreed to meet her for lunch with Beth, using the pretext of possible employment (a real possibility, in fact, because Jeff needed someone who could take over sales and marketing).

The first meeting went well. All Jeff really remembered, though, was that Sarah seemed like the most outgoing person he'd ever met and that she was a natural salesperson. They didn't talk directly about the job or the possibility of anyone buying into the company. She was obviously interested, however, and so was he.

Jeff set up another meeting that he began by talking about the director of sales and marketing position. Sarah told him in detail about her experience, including her current job, which was basically the same position at a larger, public company. She had extensive contacts with university hospitals throughout the country that could prove valuable if she came to Star Systems. When he asked her why she would want to leave her present job, Sarah said she was looking for an opportunity to have an equity stake in a growing, profitable company. The meeting ended without any clear indication from Jeff that ownership was possible, but he didn't rule it out. He said he would get back to her within a week.

The idea of partners still made Jeff queasy, but he set up another meeting after more conversations with Beth, his accountant, and one of Sarah's references. He felt reassured by her stellar job history and her longtime friendship with Beth. His fear that Sarah was just like his sister had subsided.

The package Jeff offered Sarah gave her about the same salary she was currently making (\$200,000) and an ownership stake similar to what Beth would get, that is, a 10 percent stake in the company for \$280,000, with \$100,000 up front and \$180,000 over two years. Sarah asked how her deal differed from Beth's, and Jeff explained that Beth

was going to pay slightly less up front and the balance over a longer period of time. Sarah suggested that if she could increase revenues by \$500,000 in her first year, she should also have five years to pay the balance instead of two. Jeff quickly realized that Sarah was a good negotiator herself. He countered with a million-dollar revenue increase and two years, and they agreed to think it over.

Jeff suddenly realized that he had not yet discussed any of this with his attorney. They met and reviewed the proposals. The attorney, who had been intimately involved when Jeff was extricating himself from his sibling partner experience, said he was surprised that Jeff was taking on any partners. That again made Jeff nervous. The attorney told Jeff that he had recently heard me speak on partnerships and suggested that Jeff call me.

When I spoke with Jeff, he explained that his fear of taking on partners was a consequence of his bad partner experience with his siblings. When I described to him how the Partnership Charter works, he opened up to the possibility that his experience with Beth and Sarah could be different. I suggested that before they negotiated any more of their deal, they should have a retreat to explore the entire range of issues related to being partners. By the end of the three-day weekend retreat, I assured him, they would all have a much clearer understanding of whether or not this made sense and how they would operate as partners.

Their discussions and negotiations during the retreat fashioned the charter in the appendix. It is reproduced in its entirety so you can see what an entire Partnership Charter looks like. Keep in mind, however, that no charter, including this one, is meant to be a model for others to copy. One reason I chose this charter was its thoroughness, but not every charter needs to cover everything in such a detailed and complete manner. Each charter must reflect the individuality of its creators and the uniqueness of their partnership.