

Why You Shouldn't Rush into a Business Partnership

5 Factors to Consider

Too often, entrepreneurs seek business partners for the wrong reasons, from skills to capital. Whether leading a startup or growing organization, here's how to avoid making a bad decision.

Patrick Burke

"Do I need a business partner?" I've been a business adviser for more than 40 years and this is one of the most common questions entrepreneurs ask, whether they are starting their first business or expanding an existing one.

Holding onto as much of your company's ownership as possible and sharing it only when absolutely necessary is simple logic. But entrepreneurs often succumb to the emotional need to partner. Though by nature an independent and confident group, they start tossing ownership around with little or no regard for its current or eventual value.

So, whenever I'm asked that question, I remind them that there's no Rorschach test for what a successful business partnership looks like. Too often, you may think the inkblot looks like an opportunity, while your partner sees only obstacles. It's an extremely tough chasm to bridge. But if you're seriously considering a partnership, ask yourself these five questions as your guide:

Do you need to partner?

If your business requires a person with a certain set of skills you don't possess, and those skills can't be acquired for money alone, then the answer is yes. This is the gold standard. You also must address the threshold question: Are you the business partner type? Some people are born to go solo, particularly if that's what they've done most of their business career. Examine your conscience to determine if you'll be able to share decision making and tolerate the practically inevitable disparity between your effort and efficacy, and your partner's. And can you accept that this disparity may not be 100% reflected in your profit-sharing ratios? If you know this scenario would be intolerable, it may be best to grossly overpay for a needed skill or find another business you could do alone.

Drive is the universal trait among successful entrepreneurs, and those who are successful may not even realize they have it. For your partnership to flourish, a prospective partner needs to match your level of passion and be committed to continually improving the skills that made him or her indispensable to begin with. I suggest you both take a personality test, such as the DiSC test, to see how compatible you are. You don't necessarily need to be equally driven; that's likely a separate problem. But you can't be polar opposites.

Have you swapped personal financial statements?

Your prospective partner should be neither too rich nor too poor. Too rich, and success won't mean as much as it does to you. Further, fear is a great motivator: if your partner is independently

wealthy, success may not be as necessary for him or her as for you, and your fight-or-flight survival instincts won't match. But too poor and your partner will likely be unable to match your cash in the event of a capital call. Needing additional cash is a highly likely occurrence, particularly with a startup. Moreover, if you end up borrowing from a bank, you and your partner will likely be required to sign personally. Under the terms of the note, you'll be joint and severally liable, which means the bank may look to one or both of you to satisfy the debt. Sharpens the focus, doesn't it?

Have you thought about moral character?

Even though under state, corporate, and limited liability company statutes you aren't responsible for your partner's actions beyond your investment in your business, you as well as your prospective partner should be of the highest moral character. We're judged by the company we keep — and even more critically by the partners we choose. While it may seem intrusive, I suggest mutual credit and background checks: Nothing promotes full disclosure like complete transparency. Although it may not literally be the case with your business, you should be proud to have your partner's name next to yours on a sign swinging from your business' front door.

What's the potential partner's tolerance for risk?

There is no better time to discuss long-term goals than before you start — including risk tolerance. You might see your joint business as a potential juggernaut that can be expanded significantly. Your partner, however, may see it as a lifestyle business that provides little more than a good and high paying job. Generally, such divergence in goals is due to relative risk profiles. Some partners seek to circumscribe risk and may see little reason to take a chance when things are good. Conversely, other partners see good times as a good time to double down.

Do you have clearly defined roles?

Distilled to its essence, a successful business entails team members executing processes. The value of each partner's execution of these processes is evaluated by the other members of the team — based both on its relative contribution to the success of the enterprise and, ultimately, by customers who decide whether or not to buy. With partners, it is critical for each of you to define your roles as specifically possible and hold each other accountable. You need to know what each of you will be responsible for accomplishing in the business.

Having asked yourself these questions, make sure you're operating from the right perspective. Business is a financial undertaking with obvious emotional results, not an emotional undertaking with financial results. Keep this straight. Partnering should not be a knee-jerk reaction to fear of the unknown or the need for capital. Consequently, you should first exhaust all non-partner avenues for skills and capital rather than settle for what feels most comfortable.

The old adage that success is a journey and not a destination holds true. That journey will have fewer detours and be far more fun and financially rewarding if you are at the wheel — without a backseat driver or a flat tire partner. Adding a partner later, when you truly know you need one, is far easier and cheaper than expelling one you didn't need.