

When Partnerships Go Awry

Lew and Max have been business partners for 20 years. Their situation is a lot like that of many business partnerships.

"Lew is like family. "

"Max is like a brother."

They built their business from the ground up.

"Together."

"United. "

They respect and compliment each other.

"The man's a genius."

"Lew is a Rockefeller—a Getty."

Until the disagreements!

"He's a bum."

Arguments, other interests, retirement—these are just a few reasons partners don't stay together.

"He was family to me."

"How could he do this to me?"

"What's wrong with him?"

This conversation, which aired verbatim as radio ad produced by the Cole Taylor Financial Group, points out the emotional impact that a business partnership captures. Partnerships begin for a variety of reasons. They are all valid, justifiable, and logical at the time. But over the years, the need for the partnership often changes.

Most partners believe they join forces in business for logical reasons but in reality, they are motivated by the future image of success.

Take Lew and Max for example. Lew was a hard working assistant manager in a medium-sized family restaurant chain. Lew was happy working in the foodservice business and wanted to make it his career. He felt comfortable managing his staff but felt he could not be successful operating his own chain. He spent his off hours dreaming about his new concept.

He started to look for a partner because he realized the financial and managerial talent necessary to make the concept reality was beyond his personal resources. Lew met Max at a foodservice convention and knew immediately that they could be friends and perhaps partners. Max had the financial resources and the maturity necessary to help Lew make his ideas work.

JOINING FORCES. Many restaurant operations begin with partnerships. Financial difficulty, according to the experts, is the leading reason restaurant partnerships are formed. Just as in Max and Lew's case, many individuals with restaurant expertise join forces with a financial partner in order to purchase an operation or start one from scratch.

Another reason partnerships are formed in the restaurant industry stems from the need to share the burden of work among several partners. Many restaurants have been formed with one partner handling the front and the other the back. Still another reason is to expand one's expertise in operating a company. For instance, a strong restaurant manager may need someone with experience in franchising in order to add this dimension to the operation.

Whatever the reasons for joining, restaurant partnerships can be likened to marriages. The gender and intimacy may be slightly different, but the rewards and problems look surprisingly similar.

- There are periods of passion, loving, and camaraderie.
- There are periods of getting acquainted, adjustment, transition, and resignation.
- A legal contract is needed to join together.
- Both have a high divorce rate.
- Both produce offspring—children, in the case of a marriage, and food products or services in the case of a partnership.
- The relationships generally produce domestic squabbles, more often than not over finances.
- Divorces are typically very traumatic.

Compared with marriages, partnerships fail more often. In fact, according to a recent report, only one out of three partnerships proves to be a long-term success. The reasons for the high failure rate can be traced right back to human nature. Some of the more common reasons that partnerships end up dissolving include:

- Human incompatibility.
- Money worries.

- Death.
- Seeing things differently—a change from the original mandate of why the company was formed.
- The perception of one partner undermining another's position or authority by taking too much control.
- Boredom.
- Greed.
- The perception that the other partner is not carrying his weight.

When good times turn sour it is often more difficult to reinstall trust between the partners. This is why new partners must be sure at the beginning that they have the legal mechanics to get out gracefully if they find at some future time that the relationship is not working.

CONSIDER THE CONSEQUENCES. In the beginning, partners tend to be excited about the new venture and are only interested in getting the business off the ground. Most are naive, and give little thought to the consequences of the union. A legal document signifying the union is overlooked because the partnership is among friends, or because they feel the commonality of purpose should sustain the partnership indefinitely.

Even if the fine points of a partnership are discussed, it is often put off until after the company is operating, which may also account for the many false starts seen in the restaurant industry. This, of course, is where the problems start.

If the partnership should falter, individual emotions usually govern the tone of the organization and the method of operation. Supplies don't get ordered. New menu decisions are not made. Personnel loses confidence in their leadership.

These consequences and more are the result of strained partner relations. As in any divorce, good business judgment gives way to a high degree of emotion, including anger, depression, bitterness, and hurt. No matter who wins, both partners will feel they have lost: They have lost a business partner, a friend, and a certain way of life. These types of changes create trauma, and many split partners have no contact with one another after the divorce.

What alternatives are available to partners who wish to terminate their relationship? Most of the following alternatives will be distasteful to one or all of the partners involved. Nevertheless, cooler heads must prevail in determining the best way out for all concerned—including the business and its employees and patrons. The alternatives to termination include:

- Selling your share of the business to an outsider. You should realize that any buyer is going to be wary of getting into a situation in which conflict has produced a partial sale of the ownership of the company. Such an owner would be suspicious that the reason for the split might also affect his chances for success. Another problem with this approach is the difficulty in establishing and receiving a fair value for the share being sold.

- Selling your shares to the other partners. In most partner splits, blame for the problems is universally put on the other partner. So the questions that often arise are, 'Who will sell to whom?' and, 'How much is the firm worth?' One clever way of approaching this alternative is to have one partner choose a value for the company and have the other partner decide if he will buy his partner's share or sell his share to his partner. This technique puts the burden on both parties to be realistic in their approach to ownership and valuation of the business.
- Selling the entire operation. Often this is the best solution, as the new owner solves the questions of who will stay, who will go, and what the value of the business is. Since selling to an outsider establishes the true market value of the business, neither partner is responsible for the valuation question or the outcome.
- Liquidating the business. If no buyer can be found and the other options are not acceptable or feasible, the restaurant may have to be liquidated for cash.

Before the partnership begins, it is wise to answer a few questions in order for the partners to understand their individual motivations and the success, or lack thereof, that the partnership could expect to encounter in the future. The following points could also help to indicate trouble spots before you are financially and emotionally entangled with a partner in the new venture.

- Evaluate what each partner's individual goals, the goals of the partnership, and the five-year achievement level anticipated are.
- Determine how committed you are to the business in terms of time and financial resources. Can you live with significant discrepancies in your level of commitment?
- Decide how committed your partners should be with respect to time and financial resources.
- List the strengths, weaknesses skills, and deficiencies for yourself and your partners. Then discuss and reevaluate them every year.
- Describe the role of each of the partners in the new firm.

It is strongly suggested that the partnership agreement be put in written form. This agreement protects the rights and assets of each partner at a time when ego and ill will might otherwise cloud rationality. The partnership attorney can generally predict the more common problems and discuss them with the partners prior to entering into a formal arrangement.