Good morning, everybody. Dennis Engelbrecht with The Family Business Institute, Digging Deeper.

Is it a good idea to have a partner or partners in business and in construction, of course? So, it is a good idea? Bad idea? Certainly, there is a good side to it. When you have a partner, the first thing is, everything doesn't rely on you, which oftentimes when you're going it alone, you lose vacation time, you lose time with your family. There's a lot of stress sometimes. And if you're not at your best, there's nobody there to maybe carry the ball or to rely on in situations like that. Having that second person, of course, gives you some additional coverage too, so you can take your vacations, they can cover. Maybe you're the inside person, they're the outside person, that sort of idea. Gives you somebody to balance your thoughts against, somebody to test ideas you may have. Hopefully two ideas come up with a better idea in the end, or two people.

Hopefully gives you some high-level horsepower. A lot of people take on a partner because maybe they're great at estimating or whatever, but I need somebody out there who can run the field or somebody who can be a great superintendent at a startup situation, things like that. So again, that typical inside, outside. But having that high level horsepower really means a lot because sometimes early in your business life, you can't afford to hire the best. So having somebody else at risk with you can help. The other good thing with a partner is sometimes they bring equity or at least bring a lack of risk of loss. You get half the profits, but you also only get half the losses, so to speak. But that partner can bring some equity.

So, what are the bad potential things about having a partner? Well, possible deadlock. And with that deadlock, sometimes a lack of decision. So, when you have two partners, sometimes it's difficult to come to a decision because you don't agree. And I've certainly seen over the course of my career, more often than not, that leads to a decision not being made. And sometimes companies don't move forward simply because decisions don't get made because the two people can't quite get on the same page. And other situations that could be good, of course, because maybe a decision shouldn't be made if you're not both sure that that's the right direction.

One of the things to watch for in a bad situation, of course, is employees being in different camps. So, you've got one group of employees who follows one partner and one group of employees who follows the other. And oftentimes, that means we're not really on the same page going toward the same company vision, mission, and purpose. And of course, that certainly could kill a company. So, if you do have a partner, you want to make sure that you're overcoming those things.

So, many of you that we're talking to right here have partners or have a partner. So, what are the steps to success in a partner situation? Well, the first thing, of course, is to have a good shareholders' agreement. Not just a shareholders' agreement, but a good shareholders' agreement, or a management agreement in an LLC as it's called. But you want to have that upfront and you want to make sure you've negotiated that upfront. And why is that? Well, if you wait until you're in the heat of a problem or a decision, it's much more difficult to make those agreements and come to those agreements. It's much easier to make those decisions and get them set in stone when they're theoretical. They've been somebody else's problems. Because then you can approach them logically and look at it for the good of the company. So, getting a good shareholders' agreement upfront, that covers what happens in the five Ds, death, disability, divorce, disillusionment, or dissolvement, or bankruptcy. You want to cover what happens in each of those cases. You want to have rules for selling shares or restricting shares, controlling ownership within a certain group or what happens if somebody wants to sell to the outside.

And probably one of the most important pieces of that is how the company will be valued for any of those situations, whether somebody dies, or whether you're trying to bring in a new partner, or you're trying to sell shares. How does the company get valued? And by the way, I'm going to say more shareholders' agreements than not. If that shareholders' agreement calls for the stock to be valued each year, I can tell you that virtually nobody keeps that value up year after year after year. So, they end up and there's a situation where you have to have a value and there isn't one. So just agreeing to have it updated each year is not a great solution in your shareholders' agreement.

The second thing, the shareholders' agreement doesn't cover everything. In fact, it doesn't cover a lot of the day-to-day decisions and roles and responsibilities and all of that that you have. So, I certainly recommend if you're going into a partnership situation to also have a memo of understanding. Now, the memo of understanding may not be legally binding, but what it does is it sets the paper some of the things that we're going to have to deal with over time.

The first of those is roles and responsibilities. What am I going to do? What are you going to do? As the company grows, how might those change? And how do we decide on changes for our roles and responsibilities as owners or officers? Very important is a policy on officers, say officer pay bonuses and benefits. Now, some of that could possibly be in your shareholders' agreement, but in most cases, the shareholders' agreement is silent on those items. But as time goes on in a partnership, each officer's need for money today or tomorrow, and how they feel about what their pay should be, what their bonuses should be, what their benefits should be, those things change. And they very often come into dispute.

And it isn't just the owners themselves, but there are the spouses and family members and others that may come to work for the company or get benefits from the company. Do we get our spouses a company car? One of the reasons these things start to happen is small businesspeople seem to have a predilection for trying to put as much expense in the company as they can to lower their taxes. And whether that legal or not legal to use that to defer taxes I don't want to get into, but the fact of the matter is that happens a lot and that causes a lot of disputes. Because once you start buying cars, one car might be nicer than the next car. One car might be a gas guzzler and the other is not. Who gets these things? How often do they fill up the gas? How much do they use? How much mileage they get? All of these things, all of these benefits open the door to conflict. So, by having a memo of understanding and figuring out those things in advance, you hopefully can avoid some of those problems. And by the way, a personal recommendation is to keep only business things in your business and keep the personal things personal. That definitely keeps you out of there.

A couple other things in the memo of understanding. How will earnings be distributed? And the other side of that is how much equity will we keep in the company? Well, that's a decision that has to be made every year and depends on how much profit after tax that you have, how much opportunity you have to either retain earnings or distribute those earnings, whether it be through bonus or through distributions. But having a philosophy on that that you agree on is quite important.

Then there are personnel issues of hiring, firing, discipline, bonuses, raises, all of those things for your people. And if there are two or more of you in partnership, you may not see that the same way. So, you should have a system for how that's going to be decided each year and for major critical hires and fires, how those things are going to be handled.

And finally, the other thing that should be in your memo of understanding is at least a general agreement on market strategy. Ideally, you have a strategic plan, and you renew that regularly, and that speaks for the market strategy. But at least you want to know if, well, we're going to bid on projects or we're going to go for negotiated work. We're going to self-perform, we're not going to self-perform. But there are all kinds of decisions like that. Just your general approach to the market that, if you go into business and the two of you have different ideas and don't agree, certainly could lead to a breakup down the road.

The third step to success is once you're there, now you have to meet frequently, all right? Because things will change, there'll be issues, there'll be problems. So, one of the meetings you should have regularly is on company strategy and strategic planning. Already talked about that. Should be meeting regularly, at least every few weeks, to talk about personnel issues because personnel issues will arise. And again, hiring, firing, discipline, bonus, raises, all of those things. Should have a financial performance review, and I certainly recommend that monthly, but at least quarterly. And by the way, each partner has an obligation to be educated enough that you actually can have an educated discussion over the financial performance of the company when you have that meeting. And then special meetings such as role changes as the company grows. I might have to quit project managing and just supervise now, things like that. Those ongoing role changes. You should continue to meet and be in sync about your own roles as your business goes forward.

So having a partner can be a great idea. We've seen in our research, at least of our members, that companies with multiple owners do tend to outperform just the two-person partnerships and the single owner companies. So, there is definitely a benefit to that, but it does come with a lot of challenges. So, the shareholders' agreement, memo of understanding, frequent meetings, those are the things that can keep you out a ditch.

Dennis Engelbrecht, Digging Deeper.