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## Avoiding Pitfalls When Partnering with a Friend

By **KELLY SPORS**

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*From [The Wall Street Journal Online](#)*

**Question:** *A friend and I are going into business. How do we structure it so if things go sour, it won't destroy our friendship?*

**Answer:** Business partnerships are more like marriages than most people realize going into them, and they frequently end in bitter divorce. But it's especially heartbreaking when a friendship is lost along the way.

Prospective partners need to acknowledge that conflicts will arise in a business relationship, and they should set guidelines for how to deal with every kind of potential unsavory scenario, says David Gage, co-founder of BMC Associates, a business-mediation firm in Arlington, Va. Some common tension points: unmet financial expectations, different management styles and work ethics, diverging long-term goals, a partner who acts improperly, or simply a partner who wants out.

"Partners have a tendency to leave a lot of ambiguities in their relationships," he says. "Even a sliver of ambiguity can be what comes back to bite them later on."

After witnessing so many failed partnerships in his practice, Mr. Gage, also a clinical psychologist, designed what he calls the Partnership Charter. It's essentially a short course that prospective partners use to evaluate their compatibility, talk about sensitive issues, and determine how they will handle several hypothetical situations -- say, if one partner decides to quit or doesn't hold up their end of the bargain. For instance, they might decide that a partner who acts improperly, such as having an affair with another employee, loses a prespecified share of the business. Or they might decide whether to let either partner borrow money from the business and what the terms of such a loan would be.

What matters, Mr. Gage says, isn't so much what the rules are, but that they're all agreed upon -- in writing -- before problems spring up.

Partners should also decide upon the exact terms of a buyout agreement so that either partner can leave at any point, perhaps receiving a different payout depending on the reason. It also involves deciding how to appraise the business at any given time, so there's no question of the valuation's fairness.

The partners' lawyer can then put many of the specific terms and agreed-upon procedures into a partnership agreement. Inevitably, some people decide by the end of the exercise that they aren't compatible business partners.

Brad Powell, a 34-year-old software-business owner in Vienna, Va., lost a longtime friend when he resigned from their seven-year partnership in 2004 because of disagreements over how the business should be managed. "From a legal perspective, the separation was fairly easy," he says. "But it was emotionally draining and it brought me down for months on end."

Mr. Powell recently entered a new partnership with another friend, but they thoroughly planned every aspect of the business and laid out procedures for handling various sticky situations. They designed an easy exit strategy, using a legally binding "buy-sell agreement." How it works: Mr. Powell can at anytime decide to buy his partner out, but he will pay a high price to do so. If his partner wants to be bought out, Mr. Powell must agree, but he pays a lower price. They also decided that his partner's share of the business would increase by a set rate over time and assigned themselves different job duties to avoid turf wars.

"I knew I didn't want to repeat the past," he says. "Now we feel confident there won't be too many hurt feelings if problems arise."

Billy Ellyson, a small-business lawyer in Richmond, Va., says there are certain legal arrangements that partners can use to dissolve a partnership less contentiously.

Offering a "dutch auction" for example, lets one partner make a buyout offer, forcing the other partner to accept it or make the same offer back to the partner. The partner who made the offer originally must agree to be bought out at that original offer, but it ensures that the offer is fair.

Mr. Ellyson also recommends partners select a mediator early on, so they don't end up resorting to legal action to solve problems.

"Once lawyers get involved, it becomes very hard to resolve anything amicably," he says.

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