Building Better Partnerships

By Chris Burand

Unjust rewards are the #1 issue of contention in the partnership disputes I've witnessed. In most situations, at least one partner believes his efforts are not being duly recognized (financially or otherwise) and/or the other partner is being grossly overcompensated for sub-par results. Either way, the build-up of resentment and frustration can crumble an agency.

When partners find themselves in such a situation, the first step toward resolving the problem and saving the agency (if this is the goal–which is not always the case) must be a reality check. The partners must obtain an unbiased analysis of the actual situation to learn how much of the problem is real and how much is ego.

Dissolving a partnership can take a hefty toll on the bank account, agency value, emotions, and goodwill, so if the parties desire to rationally and constructively resolve the situation, they must be confident they are looking at the situation accurately. One area to look at is whether the situation is temporary or permanent. Sometimes, roles and responsibilities fluctuate. A partner carrying more weight today, may find he was carrying the smaller load in the past.

Another aspect to look consider is how critical the partnership is to individual success. Many times, even the most successful partner cannot succeed without his partners. The Rolling Stones are a great example. Keith and Mick both tried solo careers but neither was particularly successful. They may be the key members of the Stones, but they need the entire band to thrive. Like Keith and Mick, a lot of very good producers cannot succeed without their partners. The price they must pay is to receive less then their full share relative to their importance and accept that their partners may be getting more than their share. They may feel over-worked and under-paid, but by working with their partners they are more successful than they would be as a solo act.

A look at the partnership from another angle can often ease the pain of unjust rewards enough to heal the partnership. Partnerships, though, are a breeding ground for conflicts, so the best opportunity for all partnerships is prevention. Three keys to preventing battles, as much as possible, are:

A Formal Compensation Plan

Most small businesses pay the owner based on the profits left in the firm and tax advice from their CPA. This is usually works okay–except when partners are involved because this does not consider compensation based on effort and success.

As mentioned, a major reason for partnership disputes (and many producer problems) is unjust rewards. This problem is extremely difficult to correct because once an over-compensated person has become accustomed to receiving their compensation, they begin believing they have worked hard to earn it. At that point, just try taking it away! The key is a formal three-tier compensation plan for all partners that pays appropriately for management, production, and ownership.

Owner Job Descriptions
Many people scoff at the notion of an agency owner needing a job description. After all, they are the owners and of course they know what to do. But that is precisely why so many agency owners do not take the time to develop new producers successfully, why they have quit growing their books of business, and why they do not spend enough time managing their employees' personnel issues/conflicts. None of these items are part of the owner's job description, correct?

Without job descriptions, when something goes wrong in the agency, which partner is responsible? Even if the partners take equal responsibility for a problem, that does not fix it nor does it *prevent* it. This is an important point because the fewer problems a firm has, the less likely the partners are to fight. Once a problem occurs, it no longer matters who should have been managing the process. The more important point is to prevent the problem from occurring in the first place and unless the partners are clear about who is supposed to do what, no incentive exists to address the items no one wants to tackle. In many cases, the partners each assume the other will do it and then get mad when it does not happen. Job description prevent ambiguity, they prevent problems from occurring and they prevent problems from escalating out of control.

Partnership Agreements with Proper Buy/Sell Contracts
I am constantly surprised by how many agencies do not have buy/sell agreements. This is one of the worst mistakes partners can make. Making the situation worse, the vast majority of agencies that do have buy/sell agreements have extremely poorly written agreements. Poorly written agreements are like time bombs. The parties involved usually do not know anything is wrong until the agreement is triggered, but by then, it is too late and the result is a large explosion.

The purpose of a buy/sell agreement is to create a framework for equitably disbursing the value of the business in the event the partners no longer can and/or desire to remain partners. So when the poor buy/sell is triggered (because the partners are no longer getting along) and they learn their buy/sell does NOT equitably disburse the value of their agency, the explosion is usually huge.

A good buy/sell agreement will help orchestrate a smooth breakup and keep tempers under control. Sometime a good buy/sell agreement may even prevent an unnecessary breakup because it will hinder significantly unfair practices and claims (of course anyone can claim anything and sue for anything, but a well-designed agreement prevents legitimate claims and suits).

Each of these three preventative measures brings accountability and structure to the partnership. With accountability and structure, partnerships are built much stronger and can weather more storms. Why take a lackadaisical approach to something as critical as a partnership? Take the appropriate measures to ensure your partnership can withstand the test of time.

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