

## **Forming a successful business partnership**

There are many ways to structure a business but if you choose to form a partnership there are a number of key factors that need to be considered to ensure its success. Often it may mean working with someone that has a completely different personality to you or handles business decisions in a different way, but that's not to say you can't make it work.

You don't have to be the best of friends but you must be able to work well together, and it's essential to have mutual trust and respect within the partnership. The skills of all people in the partnership must complement each other, so several over enthusiastic, big picture thinkers may be great in generating creativity but will they probably be unable to deliver on these ideas.

More often than not they don't, and instead someone who may seem a bit dull and boring could be the foil to someone else's entrepreneurial spirit. They can take creative ideas and break them down into a realistic plan complete with action steps and financial milestones. Most importantly there must be openness in the partnership so that all parties can speak their mind freely and offer each other supportive challenges, which are not seen as a criticism.

### **Forming a partnership**

There are five key steps which will help to form an effective partnership:

#### **1.) Understand what value you bring**

When things get stressful people tend to notice their own value above that of others. Be clear on who is good at what in the partnership and what responsibilities each person holds.

#### **2.) Agree who makes which decisions**

You must agree upfront how you are going to deal with difficult situations. Don't just rely on the current relationship you have, as the niceness can soon vanish when the difficult times hit.

#### **3.) Draw up legally binding agreement**

Write down all business decisions and get the legalities checked by a legal firm. This normally forms a Partnership Agreement. Don't just rely on memory, it can get quite hazy in difficult times and you will certainly remember things differently. The key is being able to turn to a written document to confirm what was agreed.

#### **4.) Don't rush it**

You wouldn't leap straight into marriage with a total stranger, so don't do it in business. A business partnership revolves on a similar principal, plus they can be more costly when they go wrong. Try working on a project together first to get a proper sense of how you manage tasks between you and how the partnership could work.

## **5.) Agree the finances**

Be as confident as you can be that your partners have the ability to weather the odd financial storm. If they are strangled by debt or are simply disorganised with money then it doesn't bode well for their ability to manage the business.

### **The risks**

In a partnership, two or more people share the risks, costs and responsibilities of being in business. Each partner is self-employed and takes a share of the profits. Usually, each partner shares in the decision-making and is personally responsible for any debts that the business runs up. Unlike a limited company, a partnership has no legal existence distinct from the partners themselves. If one of the partners resigns, dies or goes bankrupt, the partnership must be dissolved, although the business can still continue.

A partnership is a relatively simple and flexible way for two or more people to own and run a business together. However, partners do not enjoy any protection if the business fails.

### **Formation**

- Each partner needs to register as self-employed
- It's highly recommended that you draw up a written agreement between the partners.

### **Management and raising finance**

- Partners themselves usually manage the business, though they can delegate responsibilities to employees.
- Partners raise money for the business out of their own assets, and/or with loans.
- It's possible to have 'sleeping' partners who contribute money to the business but are not involved in running it.

### **Records and accounts**

- The partnership itself and each individual partner must make annual self-assessment returns to HM Revenue & Customs (HMRC).
- The partnership must keep records showing business income and expenses.

### **Profits**

- Each partner takes a share of the profits.

### **Tax and National Insurance**

- As partners are self-employed, they are taxed on their share of the profits.
- Each partner also needs to pay Class 2 and 4 National Insurance contributions.

## **Liability**

- Creditors can claim a partner's personal assets to pay off any debts, even those debts caused by other partners.
- In England, Wales and Northern Ireland, partners are jointly liable for debts owed by the partnership and so are equally responsible for paying off the whole debt. They are not severally liable, which would mean each partner is responsible for paying off the entire debt. Partners in Scotland are both jointly and severally liable.

However, if a partner leaves the partnership, the remaining partners may be liable for the entire debt of the partnership. Also, a creditor may choose to pursue any of the partners for the full debt owed in the case of insolvency

## **Maintaining the relationship**

There are a few ways that you can be sure to maintain a successful partnership:

### **1.) Regular communication**

Don't do it on the run or when a problem arises, do it regularly and especially when things are going well.

### **2.) Delegate effectively**

Bear in mind your agreed value and responsibilities and when a new project starts, assign actions to all individuals.

### **3.) Celebrate any successes**

So many businesses are so focused on the future that they forget to reward themselves with acknowledgement and celebration when things go well. A little acknowledgement goes a long way in relationship building, your partner will thank you for it.

By following these simple pointers a successful partnership should be just around the corner, however, if problems do arise and the partnership begins to break down there are certain areas you must ensure are well covered. The first rule is always have a Partnership Agreement in place as this can really help if you find yourself in a difficult situation.