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Advisory Services for Technology and IT Leaders

It Takes Two to Tango:
The Perils & Possibilities of Entrepreneurial Partnerships

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INTRODUCTION

Many technology companies begin their journey as partnerships. On the face of it, the idea to form a partnership makes complete sense. Two friends or colleagues with complementary expertise and a good relationship decide to combine their talents, experience, and resources, and start an innovative business together. However, people are often caught off guard by just how tricky and difficult partnership relationships can be. Indeed, very few partnerships make it past the first two years; even fewer—less than 20%—last beyond five years.*

At CENTERNORTH Inc., we consulted to a number of two-person professional partnerships. We also coached the survivors of numerous failed ones. Intrigued not only by the horror stories we heard, but also by the commonality of the themes, we conducted some preliminary research with the goal of deepening our understanding of the unique challenges posed by the partnership form of business structure.

If you're already in a partnership, or if you're thinking of starting one, we believe our findings can help you increase your chances of success. At the same time, we offer this paper as a starting point for further investigation. It appears that not much research has been done on this topic. With that in mind, we welcome your feedback and your input about your own experiences. We will add your input and compile a revised document at a later time.

*"Love and Hate in Professional Partnerships." Unpublished Paper by Larry Gould, PhD.

EXECUTIVE SUMMARY

Our research was conducted through one-on-one interviews. We interviewed people from failed partnerships who talked about "lessons from the trenches;" we also interviewed people in successful partnership who discussed "success factors: necessary steps." In those conversations, the subjects virtually always chose to focus on the "people" aspects of their partnership experience, rather than on the more technical/business issues. Here's an overview of the findings:

1. In most cases, the partnerships were started with considerable business research and a solid business plan, but it was the people selection process or the relationship between the partners themselves that was key to the success or failure of the business.

   Even very experienced and savvy business people expressed surprise at the difficulties they encountered in working with their partners. Many of the people we interviewed described the shame and embarrassment they felt when the partnership blew up, almost as if "they should have known better." In many cases, the fall-out was still unresolved and a source of hurt many years later.

   Conversely, people in successful partnerships stated they not only admired and trusted their business partner, but the quality of the relationship encouraged honest dialogue and conflict which, in turn, enabled innovation and mutual professional growth.

2. Most of our interviewees talked about how "personal" or "intimate" a partnership is. They pointed out that, unlike in a large corporation, in a partnership you can't blame impersonal forces when things go wrong. And paradoxically, it may be precisely because of this intimacy that things do go wrong, both in the beginning phases when the partnership is formed and once the business is up and running.

3. One of our major findings centered on how difficult it is to quantify the "intangibles" that people invest in a partnership, and the value these intangibles add to the business. These intangibles include whose idea launched the business; the intellectual capital, industry contacts each partner provides; how hard each partner works; sacrifices of family time; and so on.

   Because such factors are so difficult to quantify—and because they change over time—it is very hard to decide whether what people get out of the partnership matches what they put in. In the close confines of a partnership, that can be a real source of dissatisfaction and friction.

4. Our most important finding was that despite the existence of an operating agreement which addresses decision-making, equity, and other critical issues, the interpersonal and emotional dynamics that unfold between partners were the trickiest to manage and master. Even when the business is a financial success, psychological issues of competitiveness, control, and counter-dependency can derail the partnership at any time.

RESEARCH RESULTS

Below is a summary of our research findings which consisted of 20 interviews with people who were either “recovering from a failed partnership,” or, thriving within successful ones. Both outcomes offer insights and learning opportunities.

I. Lessons from the Trenches

Fools rush in: People decide with their heart, not their head

Many of our subjects talked about the initial rush of excitement and passion that fueled their decision to launch their partnership. Focused on the financial possibilities of their great idea, they jumped in without stopping to ask the tough questions beforehand. Indeed, they reported waking up a year or two later, wondering how they had gotten themselves into this particular mess. It was almost as if they felt they had no control over their initial decision. The following comment is but one example of this analogy. Asked why she decided to form a partnership with Dave in the first place, Barbara said “For the same reason I married my first husband. Because he asked me …”

In fact, virtually all of the people we interviewed said, with a rueful smile, something like: “a partnership is just like a marriage.” On the surface, the marriage metaphor seems to reflect the high level of hope that people have when they enter into partnerships. It is both reassuring and a relief to find a “buddy” to work with, to blend skills and competencies, expand growth opportunities, and face the uncertainties of the marketplace together.

However, when we dug into this idea that “a partnership is like a marriage,” we found that the phrase often meant, “starting a partnership is like getting married,” in the sense that upon reflection, some of the same “reasons for getting married,” and some of the same interpersonal dynamics that unfold once married, also play out within professional partnerships. It is in that context that people are often surprised and caught off guard when tensions and power struggles ensue once the initial “glow” wears off. Additionally, a professional partnership lacks the “glue” that can help marriage partners stick together such as love, sex, and children. Navigating through these transition points therefore requires a much different skill set than pure business acumen or technical expertise.

Ducking due diligence: People often fail to carefully assess the motivations and competencies of themselves and their business partner.

This is a corollary of the “fools rush in” syndrome discussed above. Many of our subjects described an almost accidental beginning to their partnerships—some variation on the scenario where two friends come up with a “great idea” over drinks and decide to “go for it.” The loose, spontaneous nature of partnership formations, as well as the fact that the potential partners very often experience each other first as friends, seems to prevent people from applying the same selection criteria they would to other business ventures. Although they may have gone through a series of rigorous processes, as both hiring executives and as job candidates, when it comes time to partner up and launch that hot idea, even highly experienced professionals reported that all too often they didn’t do their due diligence.

You gotta dance with the one who brung you: The partner comes with the idea

An often overlooked dynamic as to why some people tend to seemingly rush the whole partnership selection process has to do with the fact that it’s hard to tease out who actually "owns" the idea itself. If the genesis of the idea emerged from some sort of mutual creative process between friends or co-workers, then both enter the partnership with a sense of “ownership” of the great idea. So partnerships tend to get formed, in large part, based not on the strength and viability of the partnership itself but on the desire for "access" or "co-ownership" of the great idea.

Jaye said: I would love to have thrown my partner away, but he came with the idea, in fact it was his idea that I built upon and fleshed out.” So I was stuck with him. This dilemma is often out of people’s awareness and can be a source of great mystery to the spouse who wants to know what you are doing working with "that jerk." Jaye said he routinely found himself in the position of defending his partner's limitations to his wife.

It's personal, not business: Prior personal history often clouds the ability to judge a potential partner's suitability.

Clearly, one of the dangers of going into business with a friend or colleague is that personal feelings make it difficult to accurately assess a person's suitability for a business relationship. This becomes even more complicated because, somehow, doing "due diligence" with someone you know seems to fly in the face of what being a "partner" is all about.

For example, when Susan thought back upon her falling out with her friend Janet in a marketing start-up, she recalled that Janet "was always ambivalent and a "serial dater" and couldn't commit to the men in her life." Nonetheless, Susan ignored this inconvenient fact when she and Janet launched the business. Unfortunately, Janet's ambivalence in personal relationships carried over into her reliability as a business person. She was inconsistent in the way she dealt with customers and the tasks at hand, which put Susan in the unenviable position of doing "clean-up."

Worse yet, once you're in business with a friend, it can be very difficult to get out because a lot more than the business may be lost. As Susan said, "You can never go back to just being friends, and these negative repercussions are only exaggerated when you work in a small town or the same professional community." This reality often influences people to stay in a partnership a lot longer than they otherwise would.

Hooking up on the rebound: People gravitate towards partnerships when they are in transition.

While every partnership is created with the hope of success, one underlying driver is often that one or both of the people involved are in a state of transition, fleeing the corporate world, or unhappy at their jobs. In such circumstances, the pressures to generate cash flow, personal legitimacy, and even a new identity can cause people to rush into the partnership. One of our subjects described the situation in these terms: "I'd lost my job and I didn't want back into corporate America. I wanted to stay out. I brought an urgency and dependency to the success of the business and it made me miss crucial warning signs about the person I was forming the partnership with."

Everyone wants a white knight: People tend to idealize a business partner as a way of compensating for their own fears and self-doubt.

Many of our subjects reported that initially they believed that their partners had a skill or ability that they did not have. For example, Richard confided that he felt competitive with his peers in his professional community, and secretly doubted himself and his ability to be successful on his own: "I formed a partnership with someone I thought was more successful than I was, as a way to neutralize my competitive feelings, calm my self doubt, as well as give me the illusion that I was bigger and stronger than everyone else." Once he realized, however, that his partner did not have the same emotional investment in the company's success or urgency to see it succeed, Richard began to resent his partner and in the end the partnership (and the friendship) ended.

This need to believe in the partner's capabilities can be incredibly strong. As another of our subjects commented, "Once we became partners, our relationship changed, almost overnight. Suddenly, there was a lot of bad chemistry between us. I should have pulled out. But I wanted to believe and I needed to believe in how great my business partner was. I idealized my partner and I thought the idea was so great, and he was so great, that it could override the chemistry thing."

All pigs are equal, but...: People have hidden thoughts about their own value added.

The very word "partnership" connotes notions of "equality." In business partnerships, the danger is that people often confuse equity with equality. Most partners are clear about how much of a formal ownership stake they each have in the business. What is often unclear are the hidden assumptions that each partner may have in terms of what it means to be equal, who is the most "important" partner, how hard they will each work, whose decisions will take precedent, where the office space will be located, and how conflict and differences will be resolved. Many of our subjects had entered their partnerships with unstated beliefs about their unique value or importance to the business. These hidden beliefs inevitably fueled conflicts about a wide variety of critical business issues.

In the case of Mike and Brad's newly formed technology consulting practice, for example, it quickly became clear that the two partners had very different ideas of what "hard work" meant, in terms of hours spent at the office, weekend work, summer vacation time, etc. Brad also felt that his previous experience in a start-up should give his opinions greater weight. "I felt that Mike should just trust my judgment." As they wrestled with issues of how to grow the business, these underlying and largely unstated differences led to steadily increasing conflict, resentment, and eventually, failure.

It's your fault, not mine: People "push each other's buttons;" the result is a destructive cycle of blame and defensiveness.

When people in partnerships start to struggle, they tend to blame each other, and seldom examine their own role. This finding may reflect the reality that from their own subjective point of view, the very real and genuine effort they are investing into the success of the business. However, as in a marriage, similar communication breakdowns can occur and similar emotional weaponry can be used, which only serves to fuel a vicious cycle of defensiveness and blame.

Dave and Barbara—each very successful as sole proprietors—decided to merge their software companies. When analyzing why their partnership went south, they often sounded as if they were rehashing the causes of a painful divorce. Barbara said, "we went from loving each other to hating each other, almost over night." Barbara described Dave as lazy, withholding, and passive. She blamed him for not contributing enough to building the company. "I had to do everything myself," she said, "and he was always full of excuses."

Dave, on the other hand, described Barbara as impossible to work with, a controlling, nagging perfectionist micro-manager, always critical of him. "Nothing I ever did was good enough," he said. "No matter how hard I worked, she worked harder and longer."

Each pushed a button in the other, and without the ability to navigate through the deep-seated emotions that they were stirring up in each other, their partnership went down in flames.

II. Success Factors: Necessary Steps

Virtually all of the subjects we interviewed, who were working in *successful* partnerships, had at least one failed partnership under their belt. The "lessons learned" through failure had enabled them to succeed the second or third time around. (Success is defined here as staying in business for more than five years, with a consistent growth trajectory after the first two years.) With this in mind, the following suggestions are offered as a potential guide for success.

To thy own self be true: Be very honest with yourself as to why you are forming the partnership.

Self-awareness is an invaluable business advantage, especially in a partnership. It's important to avoid a relationship of co-dependency. Do your own due diligence about your own strengths, motivations, fears, and doubts. Ask someone you trust, but not your potential partner, to help with this discernment process. Also carefully assess the experience and skill set of your potential partner. Be clear what they actually bring to the table. Does he or she have a proven and successful track record in the industry or clear and identifiable transferable skills? Keep in mind, even if you don't ask these questions, that bankers or venture capitalists will.

Once the bloom is off the rose: Specify the decision-making process up front.

Even with close friends, starting a business inevitably changes the nature of the original relationship. Because people are in different roles, they will have different expectations of one another and they will behave differently toward each other. Furthermore, many people who form partnerships come from jobs where they were the decision makers, or were in business by themselves. It can be quite an adjustment to not to have the last say, or to be able to influence by position alone. Many of our subjects warned that partnerships are doomed to fail unless a default hierarchy emerges, with someone with clear authority to be able to make an overriding decision. Robert, for example, the veteran of one failed partnership, says of his new and successful enterprise, "We are a partnership for tax purposes or financial purposes, but in reality there are informal lines of authority, and it is clear who the ultimate decision maker is. It's the only way the structure can really work."

At the very least, specify a decision-making process. Decide beforehand how you will handle different opinions, and whose decision will trump whose, under what circumstances. One of our subjects put it this way: "We use the following method… what is in the best interest of the client. It's always clear what the client really needs and this helps us get out of our own way. You need to leave your ego at the door. A partnership is not a place for selfishness, power struggles, or grandstanding."

All risk profiles are not created equal: Be aware of your psychological tolerance for risk.

The fact is that most partnerships will not work unless each person has roughly the same profile in terms of both assets and risk tolerance. If one person is willing and able to "bet the farm," while the other is not, this difference will exacerbate the disagreements that arise over critical business and growth decisions. For example, if one of the partners is financially independent and taking on the partnership as a source of side income, while the other needs to derive their sole income from the business, this will almost certainly result in resentment due to the unequal risks and commitments to the enterprise. Moreover, we found that even people with similar financial portfolios, can still have a different tolerance for managing risk. For example, as the business grows, one person may be more cautious and believe they should grow the business with their own sweat alone, without VC money or a huge business loan, while the other, who is more grandiose in nature, may say, “just think what we could do with an infusion of capital.”

Put people before legal: Pay particular attention to the success factors that don’t fit into a legal contract.

Certainly, legal agreements are essential for both the protection of the partnership as an entity as well as the interests of the partners themselves. While the formation of the agreement can initiate a dialogue that often unearths differences in terms of issues like values, priorities, risk tolerance, what these agreements often do not address are the interpersonal complications that arise. Our subjects made the following suggestions: “live together before you make the commitment. Learn about each others’ working styles.” Doug said, “It’s also equally important to see how you fight and resolve conflicts. For example, I can go from zero to hundred in a second, then it is all over. I forget about it. My ex-business partner never fought. He withdrew, which drove me nuts. I always felt like the “bad” guy while he was the “reasonable one.” We were never able to overcome our stylistic differences, which is a pity, because we were in a great game together.”

Honor the boundaries.

A partnership is a business relationship, and should not be co-mingled with your personal and family life. For example, David, an architect in a design-build business, is extremely careful to avoid social overlaps with his partner. As a result, when he was asked to get involved in a project that didn’t include his partner, he was able to accept the project without having to deal with hurt feelings.

Obviously, this idea is particularly important in partnerships that have the potential for romantic involvement. Because the creative process is such an exciting time, it can easily be confused with sexual desire. In the case of at least one of our subjects, an affair between the partners led first to a divorce and then to dissolution of the partnership itself.

Cultivate respect.

In successful partnerships, each partner is strong and successful in his or her own right and brings different, but complementary skill sets to the table. But these are useless unless they are coupled with deep mutual respect and a shared value system. If each person genuinely and consistently admires the others' abilities and competencies, then disagreements are more likely to be creative than destructive. Each partner is able to indulge the other's personal needs and express his or her opinion without threatening the integrity of the partnership. "We disagree about almost everything," said one partner, "but I certainly respect Fred's opinion. It also means that if something is really important to me, Fred will back off, even when he thinks it's not a good idea."

Communicate, communicate, communicate!

As in most relationships, communication in a partnership is critical to success. While this many seem obvious or even clichéd, the truth is honest communication between two people is not that easy, particularly if one person wants to give the other feedback as to "how to do things differently, next time." When receiving feedback, most people become defensive and don't like being told what to do. Building a two-way feedback loop is critical for business success. Michael and Gary, partners in an Internet commerce venture, make a point of meeting every week, even if it means changing travel plans or business appointments. "We realized we had to be disciplined about this time commitment. In the early days, it's too easy to blow each other off. It's important to get constant feedback, so that we both know in real time what is going on," Michael said. "If there are resentments or misunderstanding, they do not have the opportunity to build up into blow-ups."

Get in sync: Make time to clarify your vision and goals for the business.

At different transition points in the partnership, it's important to pause and make sure you are both on the same page in terms of the direction of the business. One person may want to just do the business and grow as work comes in, while the other may be more entrepreneurial and has big dreams for national presence or to be bought by Google one day. Because these variables can change as the business takes off, it's important for partners to check periodically to ensure they are in sync about the company's vision and strategic direction. Partners can frequently end up in separate corners, doing his or her own thing and secretly seething about the other. Inevitably, this kind of conflict, hidden or otherwise, will stifle the growth and well-being of both the people and the company.

Be clear about roles.

Although people in start-up mode typically do whatever it takes to get the business built, over the longer term partners need to be very clear as to their respective roles and tasks. Cheryl, one of two partners in a small media sales agency, found she was daily spending hours on client billings when it would have been more effective for her to be out scouting for new business. In more personal terms, she also resented what she saw as her partner's mobility. "She was going out to lunch with clients, while I was stuffing envelopes," she complained. These issues were resolved when the partners agreed to hire an office manager who would have responsibility for billing and operations.

Let outsiders in: Form an informal board of advisors and mentors.

Founding partners often come to relish that special and secure feeling of "we're in this together," or "this company is our baby." While understandable, these feelings make it difficult to bring in new ideas or people. Moreover, partners often find that their loyalty to one another may compromise their business judgment. Thus, it is important to bring in "fresh eyes" to play devil's advocate or offer a different perspective. It's not uncommon for partners to "collude" with one another and avoid honestly assessing the reasons for poor sales or stagnation. Equally, they can delude themselves that they are great when there is an up-tick in profits. After bringing in an industry expert to act as an advisor, Jacob said, "we had been drinking own bath water for too long. We needed someone with no emotional investment to us or the business, to jolt us out of our denial and propose different strategic options. For example, he told me, I was a great engineer, but I was no CEO, yet! It was painful and humbling, but he was right."

III. To Partner or Not to Partner, That is the Question

Perhaps the most important idea that we took away from our conversations with our subjects was simply that partnerships are fraught with risk. What the partners want, not to mention what they say they want, may very well change as the business evolves. Power struggles and "ego needs" may creep into the relationship.

While the specifics of such changes cannot always be predicted, sound planning, selection, and awareness can minimize the risk. The operating agreement begins the process. It needs to provide a clear enough structure that supports governance, process, and procedures, and at the same time be flexible enough to accommodate different variables as they arise. Thereafter, both partners need to be as thoughtful as possible about what is really going on—how they themselves and their partners seem to be changing in the face of the evolving business challenge. Knowing at least the kinds of interpersonal "derailments" that are inherent within most professional partnerships is also critical, as is the willingness to work as hard on the "relationship" as on the other aspects of the business. The people we interviewed who had been successful in partnerships had all figured out a process to address and manage the relationship within the partnership.

The reality is that any new business is hard to get off the ground, and sustain itself once launched. Even under the best of circumstances, great talent, and lots of long days, it still takes big dreams and a little bit of luck. But, especially in the tricky world of partnerships, forewarned is forearmed. Knowing what some of the unique challenges may be when building a partnership increases your chances of long-term success. It's as simple—and as difficult—as that.

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