

Business Tips: General Partnerships

General business partnerships are when two or more people come together by agreement or proof of existence to engage in a business activity. The partners are owners who take an active role in the operation of the business and are all personally liable for any legal actions and debts the new company may face.

It is a common and viable form of legal organization because it is relatively easy and inexpensive to form. But those thinking about creating a general partnership to start a business need to be cautious for the reason mentioned above: that the partners are all personally liable for the actions and debts of the company. In my ten years of working with small business clients and from a personal family story, I have learned that one should carefully choose their business partners for compatibility.

In the early fifties my father, a master carpenter and construction superintendent, himself the son of a master carpenter and construction business owner, was approached by an owner of a lumberyard who was willing to partially fund the startup of my father's construction business as long as my father took as a partner the lumberyard owner's son. It is kind to say that the son was "trying to find himself," even though he was in his early thirties. My father agreed to the general partnership between himself and the son, most likely because he felt the son would be watched by the lumberyard owner. Dad was the technical person in the partnership and he was out of town working with the crews and doing the work of the business. What was the son doing? As the story goes he was back at home wining and dining everyone in sight including suppliers, living the high life, and buying expensive equipment all under the gaze of his father the lumberyard owner. As you can guess the business failed and had various creditors. My father went bankrupt, but I understand he paid back the money owed as a matter of principle. It took him a while, but according to my mother, he paid every penny back.

In my ten years as a small business advisor, I have seen too many general partnerships collapse because of incompatibility of the partners. They did not share the same vision, morals, work ethic or other critical things that make a business partnership work. Most experts say a general partnership is much like a marriage, you must be very compatible and trust each other, and be willing to work out differences between yourselves for the sake of the partnership's success.

To help alleviate some of the potential problems with this form of organization, potential partners should create a partnership agreement, which is a document between the partners outlining how the partnership will work, sharing of the profits or losses, responsibilities, management, what happens if a partner leaves, and other important issues. This process will help determine if the partners are compatible. Consider having an attorney review the partnership agreement, as it could be money well spent.

When considering a form of organization for your new business startup consider the forms of organization available to you such as sole proprietor, corporation, limited liability company, limited liability partnership and a general partnership among others. Consider seeking the advice of an attorney. A CPA can provide advice, especially on the tax issues involved with the various forms of organization. SBDC advisors can provide education as well. On December 10th the SBDC is sponsoring a seminar titled "Choosing Your Legal Structure" conducted by local attorney Sam Allen of Jackson Walker LLP. He will discuss the different forms of organizations and answer questions related to the topic.

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