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Planning for a Business Partnership

DISCLAIMER: This outline is a general guide. Be sure to contact an attorney if you have questions or specific issues that need to be addressed.

Starting a business is an exciting time. You have a product or service, a plan to get customers, and maybe you have some co-founders. But before you form an entity or officially open for business, it is important to plan appropriately if you have more than one owner. We always say it is better to hash things out before money is involved. So, this resource is all about planning for your business partnership and the important questions to tackle ahead of opening.

- 1. Set Your Goals.** It is important you and your business partners all have the same goals for the business, so before you open your doors, make sure you want the same things. Discuss what your goals for the business look like both now and in the future. If one person is focused solely on profit, while another wants to make sure employees and the environment are also prioritized it could lead to schisms down the road. Laying out and discussing your roadmap for the business and getting on the same page is important.
- 2. Determine Each of Your Values.** While someone may have helped you in the beginning with the ideas or tech stuff, they may not necessarily be the right person to be an OWNER of the business. Make sure you understand what skill sets everyone is bringing to the table-are the complementary or overlapping? Is everyone willing to focus on the business as a whole? What is everyone contributing and how does it align with the goals of the business (see what we did there? ;)). In the beginning money can be tight and time demands high, so you want to make sure who the owners of the business are makes sense for the longevity and needs of the business. This can be a TOUGH conversation but a very important one. It may make sense to have some people just be employees/officers or contractors of the company instead of owners.
- 3. Divvy Up Ownership.** Whew, another tough one. Once you decide who the owners are, now it's time to discuss about how much ownership they get. Think about what each person is

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contributing both in terms of time, money, and value to the business. Someone might be doing this on the side of a full-time job, while another owner takes this on full-time and so that may mean that because the person taking it on full time is taking on more time and risk they should get more ownership. Or, maybe someone is putting in more money and therefore wants more of a stake. This is another VERY IMPORTANT thing to figure out before forming your entity or drafting up your governing document.

- 4. Decide How Decisions Will be Made.** Ok, you've decided who the owners are and what percentage of the pie everyone gets, now it's time to decide...how you decide! When running a business with multiple owners it is crucial to determine how you make important decisions for the business-will you decide things based on ownership percentage such as, "a majority vote of the shares of the business" or based on people votes such as, "a majority vote of the owners." One gives people equal power while the other takes into account how much ownership someone has. You want to make sure to discuss the expectations of the owners regarding voting and decision making and how many people need to be involved in a decision. Also, if you decide to make decision making unanimous you definitely want to have a tie-breaking or dispute resolution scenario ready in case you can't agree.
- 5. Decide Expectations and When an Owner Can be Removed.** In numbers 2 and 3 we talked about identifying roles and ownership based on what each person is bringing to the company, so now it is time to talk about how those skills are executed. The potential owners should discuss what each owner is expected to do, the areas of the business they will oversee and their responsibilities. Having these laid out ahead of time can make sure that everyone understands the part they play and expectations, which also makes it easier to point back to if things aren't going right. Speaking of things not going right, you want to have a plan regarding how to remove an owner if it's no longer working. Sometimes this can be based on a straight vote of the other owners, other times it can be a vote of the other members plus a showing that the person up for removal hasn't met certain requirements such as responding to communications, their fiduciary duty to the company, etc. You always want to have a plan for if things go south, before they go south.
- 6. PUT. IT. IN. WRITING.** If you've done the hard work of having all these discussions, then don't skip this last step by not putting it in writing. Everyone can remember things differently, but if you put it in writing, it becomes a lot harder to disagree down the road. Some of these decisions should be put into your governing document whether it be a partnership agreement, operating agreement, bylaws, etc. depending on your entity, while other decisions you may want to put in resolutions (written decisions of the company based on the voting procedure you laid out in your governing document) such as division of roles, how profits and losses will be divided, etc.

Taking this step not only helps avoid disputes, but also establishes good record keeping practices and business planning methods.

Next Steps:

-TALK TO YOUR TEAM! If you're thinking about forming an entity or moving forward with your business have the above discussions (and more) in order to make sure you are set up for success and all on the same page.

-WRITE IT DOWN. Write down your decisions, reach out to an attorney to help you put these in the right format and language, and if you're an LLC you can even use one of our [operating agreement templates](#) to get you started!