Business Collaboration

Partnerships:

Working in partnership can have many advantages.

- The capital required to get the business started is split between the partners.
- Partners bring differing skills, experiences and contacts into the mix.
- Real synergy often occurs.
- Responsibility is shared

Legal Format:

There are two legal formats for partnerships :-

Ordinary partnership.

- If two or more individuals begin trading together and divide the profits from their operations between them, this is deemed to be a partnership.
- It is good practice to draw up a simple partnership agreement, even the best of friends can disagree or die! Template partnership agreements are available from your Business Adviser.
- If there is no partnership agreement, the rules of the partnership are defined by the Partnership Act 1890, which may not suit most modern operations.
- To start a simple partnership, all that is required of the partners is that they notify the Inland Revenue within 13 weeks of starting to trade.
- If a partnership fails, the partners have a joint and several liability for all of the debts of the business. This means that in the worse case all of the partners could lose everything that they own.

Limited Liability Partnership

- Members of a LLP are protected from personal responsibility for the debts of the business should the partnership fail as they have a fixed agreed amount to contribute.
- Members of a LLP can be taxed as self employed.
- LLP are most usually found in fee earning 'professional' businesses i.e. accountants, solicitors, architects etc.

Other collaborations

Limited company

- It takes a little longer to establish a limited company, the rules for its proper management are laid down by the Companies Act and the accounting requirements are more stringent and more costly.

- The directors of a limited company have a legal obligation to run the company properly in accordance with the regulations and could face prosecution if they fail to do so.

- Properly organised, a limited company may be more tax efficient.

- If a limited company fails the liability of the shareholders is restricted to any uncalled up share capital and guaranteed or secured loans.

- It is much easier to have large numbers of participants in a limited company.

- For these reasons it is easier to find outside (and therefore 'handsoff') investors for a limited company.

- If a participant/shareholder wishes to leave it can be easier to arrange than the departure of a partner from a partnership.

Planning

With a mix of different personalities, each with their own outlook and agendas careful planning and organisation from the outset lay the foundations for future success.

- Each participant should define their personal objectives, preferable in writing at the start of the planning stage.

- Each participant should define the levels of commitment, hours of work etc that they are prepared to make.

- Agreeing objectives for the future development of the business specifically for the first year and also for a longer period, say three years, sets the scene for the preparation of the business plan.

- Objectives, business and personal should be reviewed on a regular basis, at least annually

Organisation

Any business collaboration – partnership, limited company or other club or association, needs clear rules, structures and lines of communication need to be set down and agreed from the outset, in writing, these go a long way to preventing problems later and defusing disputes.

- Ordinary partnerships should have a partnership agreement prepared.

- Limited Companies have a fixed constitution (Memorandum and Articles), but often have a Shareholders' Agreement as well.

- Unless the Partnership agreement provides otherwise, any partner can enter into binding contracts without the knowledge or agreement of the other partners.

- Partnership agreements define the profit split and how the partnership will be managed.

- Both Partnership and Shareholder agreements usually define holiday and sick pay entitlements for participants.

- Partnership or Shareholder agreement will lay down the process to be followed if a participant wishes to leave.

- The Partnership/Shareholder agreement should cover worse case scenarios, ie death or disability of a partner.

- As well as the formal agreements, there are a number of other relationship issues that should be agreed in writing. These are the areas that must be clarified but are more likely to change over time.

- Prepare comprehensive Job Descriptions for each participant defining, roles and responsibilities and limits to authority. These should be re-written any time there are significant changes.

- Hold regular, formal, minuted partners/ board meetings.

- All significant decisions must be in writing, especially things like levels of expenses, mileage etc

- Prepare management accounts regularly, distribute them to all participants and ensure all parties have access to the bank statements, either hard copy or on line.

For collaborations of any type to flourish there must be trust, but trust is a fragile flower. When there is clear, regular communication and all potentially contentious decisions are put into writing, so there can be no dispute, it is easier for trust to flourish.