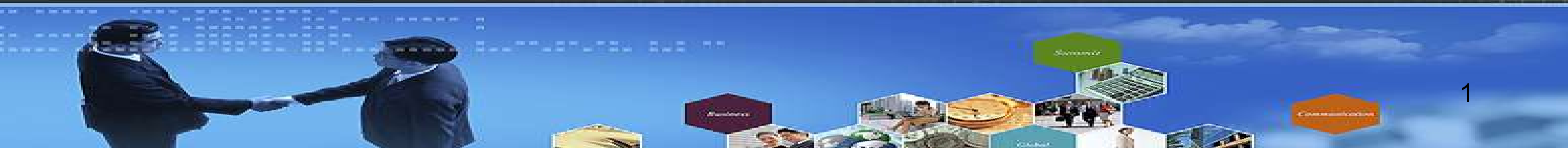
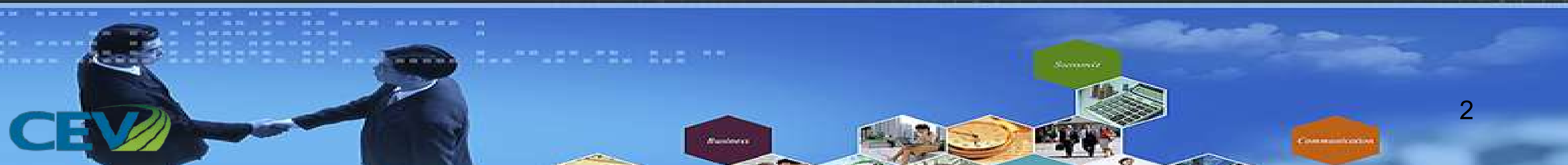
Business Partnerships: The Pros & Cons



Objectives

1. To identify the characteristics of a partnership.
2. To evaluate the four different categories of business partnerships.
3. To determine and compare the pros and cons of each type of business partnership.



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- Introduction to Business Partnerships
- General Partnerships
- Limited Partnerships
- Joint Ventures
- Strategic Alliances

Introduction to Business Partnerships

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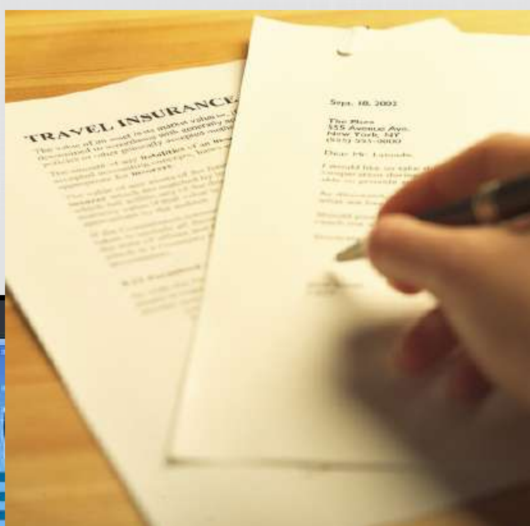
Business Partnership

- A legal, binding agreement between two or more people who will be responsible for a single business

Business Partnership Agreements

- Are made either in writing or orally
- Determine how much time, effort and capital each person will contribute
- Hold partners responsible for all finances, actions and leadership over the company



Business Partnership Agreements

- Are made up of two or more people who bring different qualities and skills to the company
- Must involve partners who are willing to learn, adapt and adjust to others
- If put forth correctly, should develop trust, confidence and an ability to work through conflicts

Four Types of Business Partnership Categories

- General partnership
- Limited partnership
- Joint venture
- Strategic alliance

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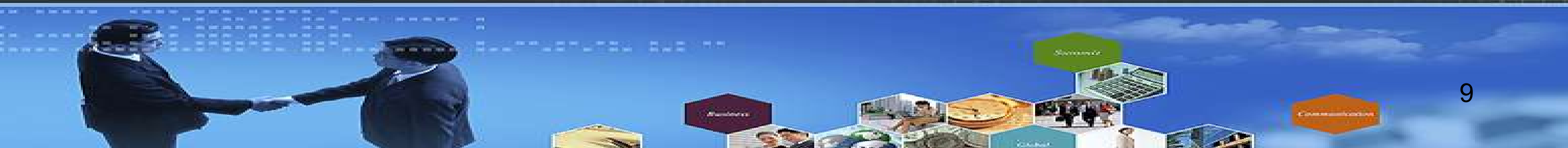
Introduction to Business Partnerships Assessment

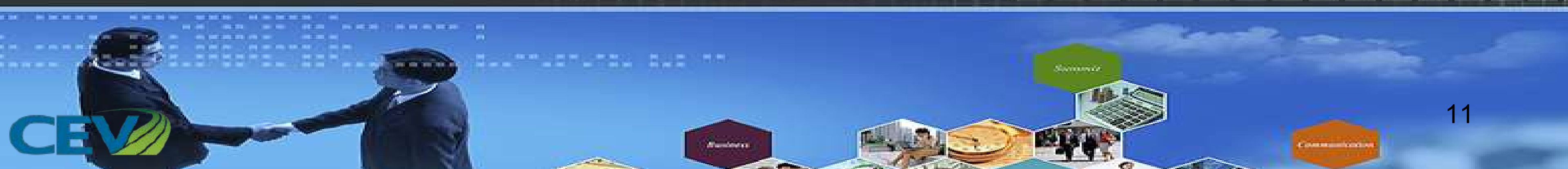


Assessment

1. Business partnership agreements determine which of the following?
   A. How the business will sell its products and/or services
   B. What methods of communication the partners will use to reach each other
   C. How much time, effort and capital each partner will contribute
   D. What the operational standards for running the business will be

Assessment

2. Business partnership agreements hold partners responsible for which of the following?
   A. Influencing environmental and government policies affecting the business
   B. The finances, actions and leadership of the business
   C. The well-being of each of the other partners
   D. Becoming involved in charitable organizations

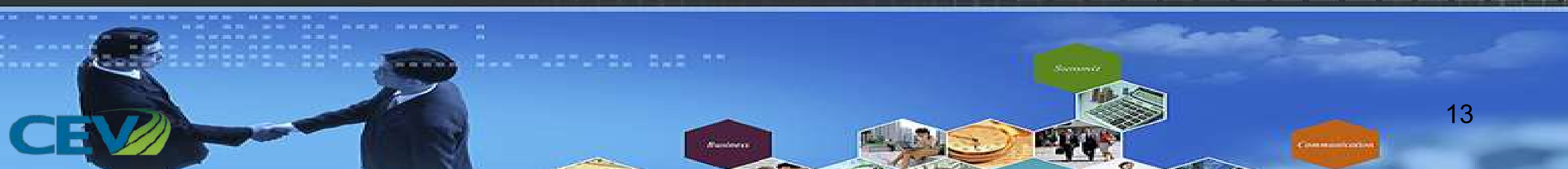


Assessment

3. Typically, business partnerships are made up of two or more people who do which of the following?
   A. Compete against each other before joining forces
   B. Want to own their own businesses but cannot afford to do it alone
   C. Spend time with each other socially before becoming business partners
   D. Contribute different qualities and skills to the company

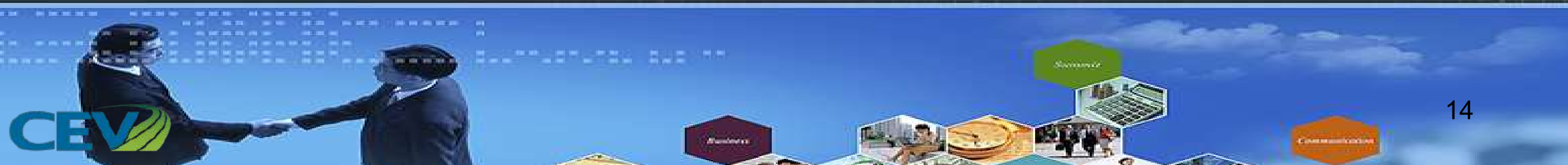
Assessment

4. Business partnerships must involve partners who are willing to do which of the following?
   A. Educate and direct the other partners
   B. Learn, adapt and adjust to others
   C. Put aside their opinions and let their partner make all of the decisions
   D. Accept mistakes and recklessness



Assessment

5. If a business partnership is put forth correctly, which of the following should be developed?
   A. Dependence and the need to always consult one another
   B. Reservation, apprehension and the use of much deliberation
   C. Trust, confidence and an ability to work through conflicts
   D. Harmony, congruence and the absence of disagreement



General Partnerships

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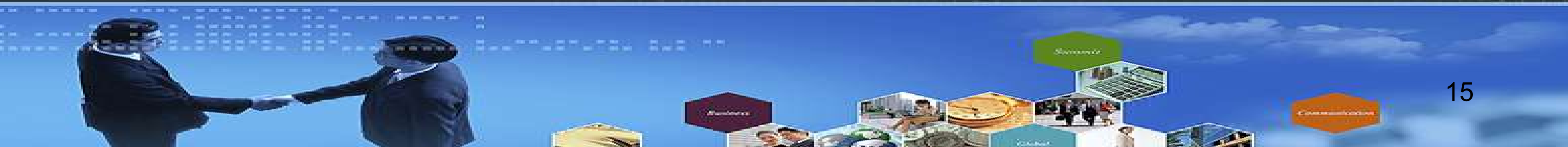


General Partnership

- Partners who share equal liability and stakes in the profits, losses and overall power in the company

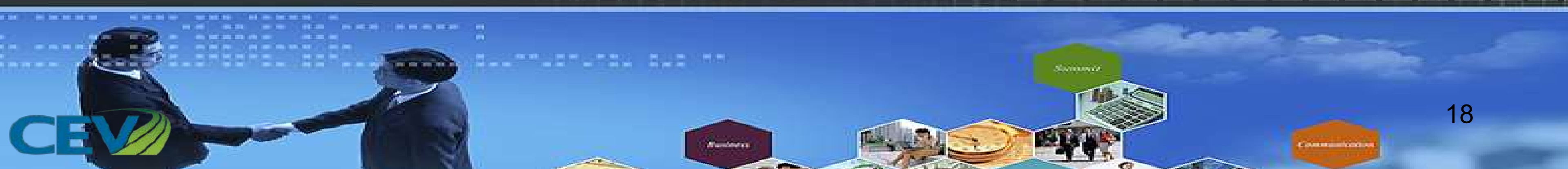
General Partnerships

- Hold each partner responsible for debts of the company if it fails, but each partner receives an equal share of profits if the company succeeds
- May mean one partner takes care of the business aspects while the other person actually performs the services or produces the product
- Are distinguished from other partnership forms by placing each partner under unlimited personal liability

General Partnerships

- Can be considered the most dangerous and risky form of business because of the unlimited personal liability system

Unlimited Personal Liability: *means each person is directly liable and responsible for all of the incurred debt or profit of the company*



General Partnerships

- Allow partners to enter a contract on behalf of the company without the authority from the other partner
- Hold partners accountable for contracts, negligence and obligations made by other partners
- Can extend to another form of partnership called a **limited liability partnership,** where each partner is not liable for the acts of the other partners
  - usually limited to accountants, lawyers, architects, medical doctors or other similar professions

Pros of General Partnerships

- Easy to form
  - all partners need is an idea, personnel and a financial commitment
- Follow the idea "two heads are better than one"
- Relatively inexpensive start-up costs due to shared financial commitment and loans

Pros of General Partnerships

- Allow the organizational structure and the distribution of profits and losses to be more flexible than in a corporation
- Partners are able to stay more focused on the core competencies and what really needs to be accomplished
- Business moves at a fairly quick pace because when a decision needs to be made, all the partnership needs is approval by all the partners

Cons of General Partnerships

- There is a hazy line of authority
  - each partner can own the same number of shares
  - can lead to disagreements on how the company is run

Cons of General Partnerships

- Each partner is responsible for acts, financial losses and decisions made by other partners (unless a limited liability partnership exists)
- Ridding a partnership of “bad” partners is difficult because of the intensity and legality of the process
- Limited in ability to raise money because other than debt financing, partnerships are often unable to get large chunks of cash

Debt Financing: *financing a company by selling the bonds, notes or mortgages held by the business; borrowing money to keep the business running*

Cons of General Partnerships

- If the company fails, each partner can lose everything, including personal property
- In most cases, the partners are almost completely personally responsible for covering all costs

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General Partnerships Assessment

Assessment

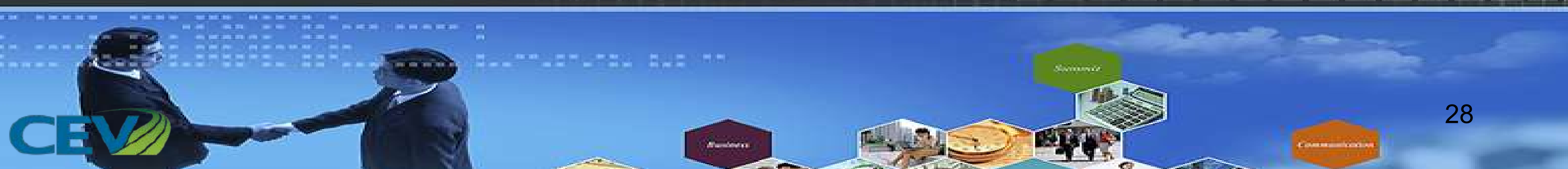
1. In general partnerships, how are profits divided among partners?
   A. Each partner receives the percentage of profits equal to the percentage of investment made
   B. Partners receive no profits because all profits are reinvested in the business
   C. Each partner receives an equal share of the profits
   D. Partners negotiate and allocate profits however they see fit

Assessment

2. How are general partnerships distinguished from other partnership forms?
   A. Unlike other forms, they place each partner under unlimited personal liability
   B. Unlike other forms, they allow each partner to retain their own business independence
   C. Unlike other forms, they allow partners to leave the business with little difficulty
   D. Unlike other forms, they are used for a limited amount of time or for a single project

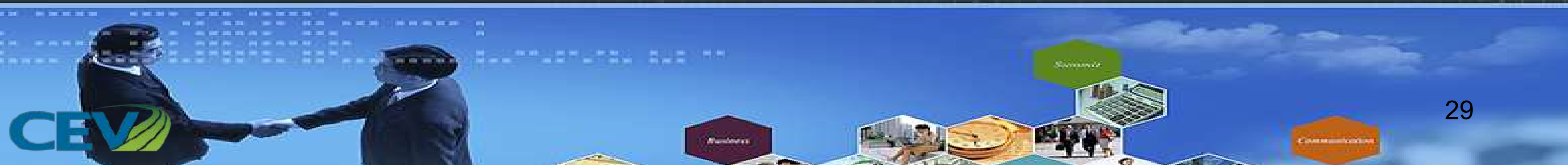
Assessment

3. When a decision needs to be made in a general partnership, which of the following is required?
   - A. A vote by the board of directors
   - B. Approval by all the partners
   - C. Approval only by the partner with the most invested
   - D. Approval by any one of the partners



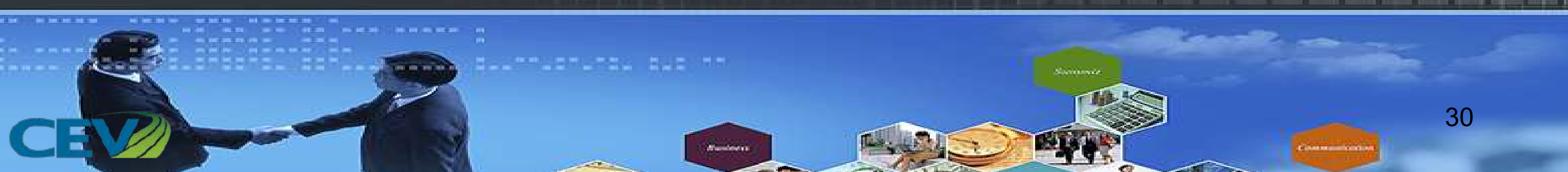
Assessment

4. Each partner owning the same number of shares in a general partnership can often cause which of the following?
    A. Two or more partners forcing one partner out of the business
    B. A hazy line of authority, leading to disagreements
    C. Confusion among partners, leading to mistakes
    D. Comradery and appreciation



Assessment

5. Which of the following is often the only way for general partnerships to get large chunks of cash?
   A. Business profits
   B. Equity financing
   C. Debt financing
   D. Government funding



Limited Partnerships

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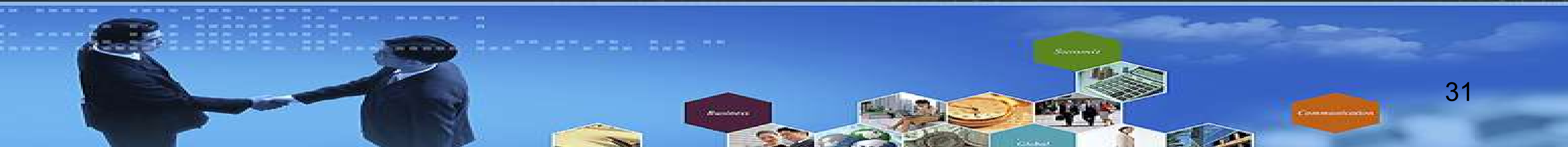
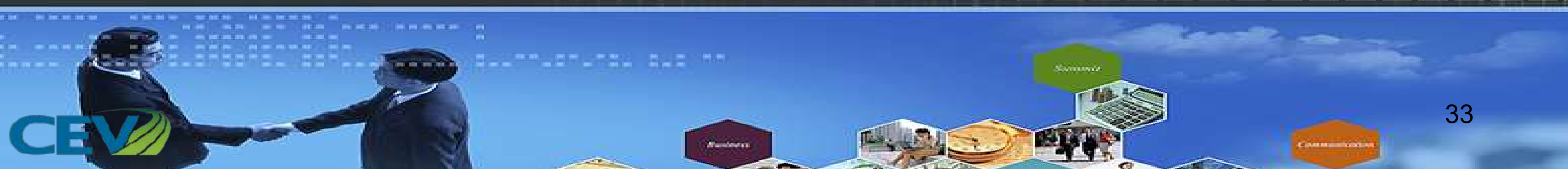


Limited Partnership

- Partners who have an unequal share, liability and power in the business, therefore a partner is only responsible for the amount they have invested

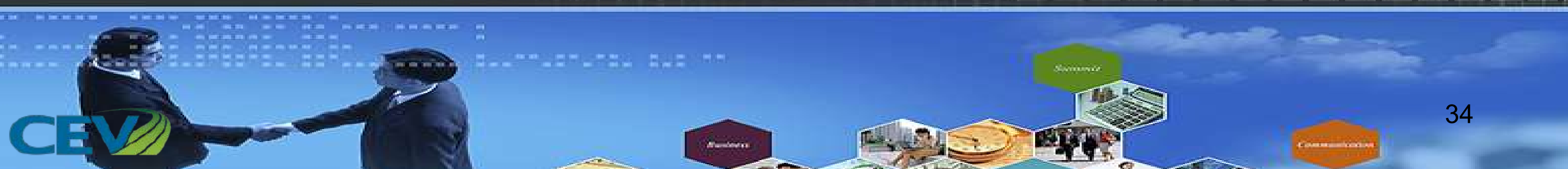
Limited Partnerships (LP)

- **Example:**
  - Fred has a plan on how to profitably build ten homes on a piece of property he found, but he does not have the money to complete the job. His friend, Bob, has money to invest, but does not know how to develop land. Fred and Bob can form a limited partnership allowing Bob to limit his liability. Bob contributes his capital to the LP in exchange for an interest in the limited partnership. Fred acts as general partner and manages the construction.



Limited Partnerships (LP)

- Can have silent partners who only invest in the company for profit and do not partake in any operations, so they are not responsible for any debts incurred
  - more complicated form of business because these partners may want a say in how the company is run, but are only responsible for their portion of investment
- Hold general partners who manage the business under unlimited liability, making them responsible for debts



Pros of Limited Partnerships

- Easier to attract investors as limited partners because they are not involved in all of the risk
- Allow general partners to use their expertise, make key decisions and manage the business
- Allow limited partners to leave the business or be replaced without dissolving the limited partnership altogether

Pros of Limited Partnerships

- Partners are able to allocate profits, losses and gains as they see fit, regardless of the equity interest of a specific partner
- Forming one helps with credibility, anonymity and lawsuit protection

Cons of Limited Partnerships

- Generally involve more filings, formalities and state requirements, which makes them more complex and formal
- Are significant to general partners which are under unlimited liability, making them responsible for debts incurred

Cons of Limited Partnerships

- Divided authority among partners can lead to disagreements and conflicts
- Unless planned for in the limited partnership agreement, the partnership dissolves in the event of the death, bankruptcy or departure of a member

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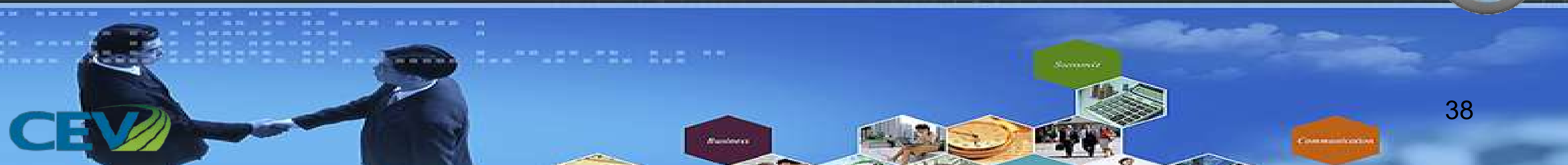
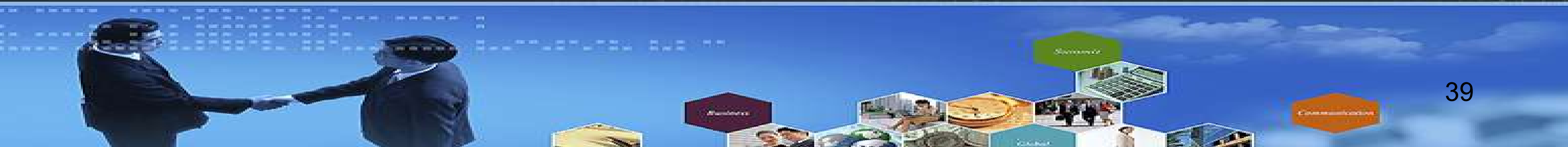


Limited Partnerships Assessment



Assessment

1. Which of the following is true of partners involved in a limited partnership?
   A. They have equal share, liability and power
   B. They each have business independence, but come together for a limited amount of time for one specific project
   C. They have equal power but no liability
   D. They are only responsible for the amount they have invested in the business

Assessment

2. Susan has invested in a limited partnership for profit, but does not partake in any operations and is not responsible for any debts incurred. She is known as which of the following?
   A. A money partner
   B. A partner for finance
   C. A silent partner
   D. A partner of sorts

Assessment

3. Limited partnerships allow which of the following to use their expertise, make key decisions, and manage the business?

   A. All partners

   B. Limited partners

   C. General partners

   D. The board of directors

Assessment

4. Forming a limited partnerships does NOT help with which of the following?
   A. Anonymity
   B. Simplicity
   C. Credibility
   D. Lawsuit protection

Assessment

5. If unplanned for, the death, bankruptcy or departure of a member of a limited partnership causes which of the following?
   A. Their share to be divided equally among the other partners
   B. The partnership to vote on what happens to their share
   C. Their share to be awarded to the partner with the most invested
   D. The partnership to dissolve

Joint Ventures

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Joint Venture

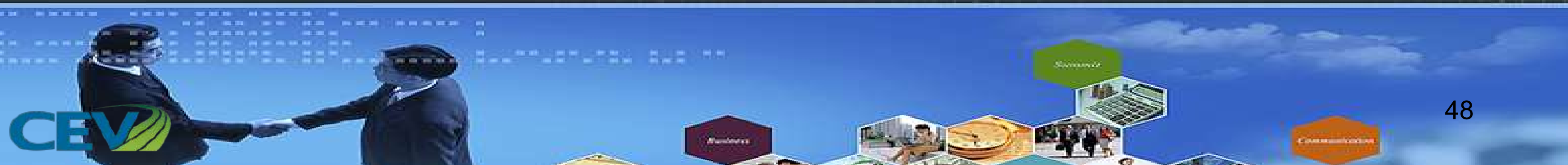
- Similar to a general partnership, but is used only for a limited period of time or for a single project
  - if the project continues, it is recognized as a general partnership

Joint Ventures

- **Example:**
  - – A real estate company purchases a piece of land and a building company uses this land to build a housing development. This benefits both companies because the building company does not have to find the land and the real estate company does not have to find a different builder to build every house

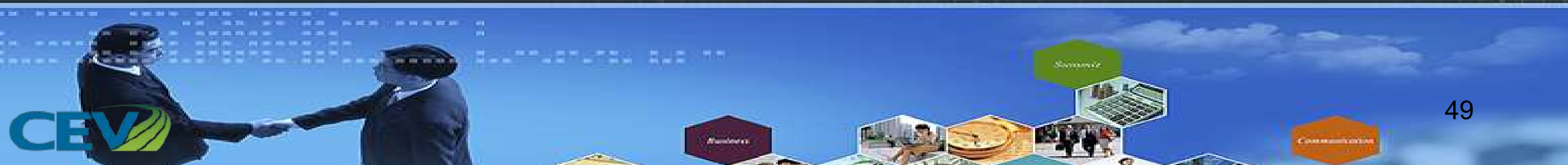
Joint Ventures

- Are usually between two or more businesses, partnerships or individuals in agreement to invest, operate and finish one specific project together
- Involve a long-term commitment of funds, facilities and services to reach goals of both parties
- Can cover at least two different markets and can be a win-win situation for both partners



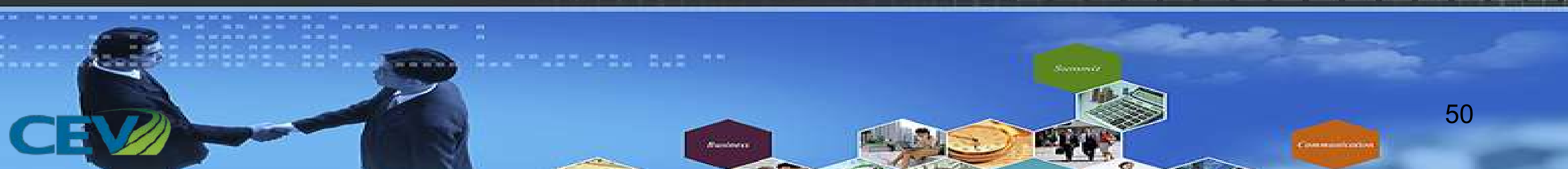
Joint Ventures

- Often involve the gradual separation of a business from the rest of the organization and eventually the sale of it to the parent company (roughly 80 percent of all joint ventures end in sale by one partner to another)
- Are common in the oil and gas industry and often involve cooperation between a local and foreign company (about 75 percent of joint ventures are international)
- Are used to spread the risk so if the project is unsuccessful, each company will not have wasted as much money, time and effort



Pros of Joint Ventures

- Allow companies to enter related businesses or new geographic markets
- Risk is shared between venture partners so one person is not held liable for all losses or debt incurred
- Can eventually sell the business to the parent company



Pros of Joint Ventures

- Allow for improved access to greater resources, including specialized staff and technologies
- Allow a more competitive price to be achieved
- Allow flexibility in the shaping and molding to meet the specific needs of the partners and of the markets

Cons of Joint Ventures

- Consume more time and present more challenges while building the right relationship
- Decision making is slower and more complex since it may be harder to communicate with everyone involved in the business

Cons of Joint Ventures

- Imbalance in levels of expertise, investment or assets brought into the venture by the different partners
- Potentially high capital costs (financial assets of the company) therefore, ongoing financial support may be required and it is very likely profits may take some time to achieve

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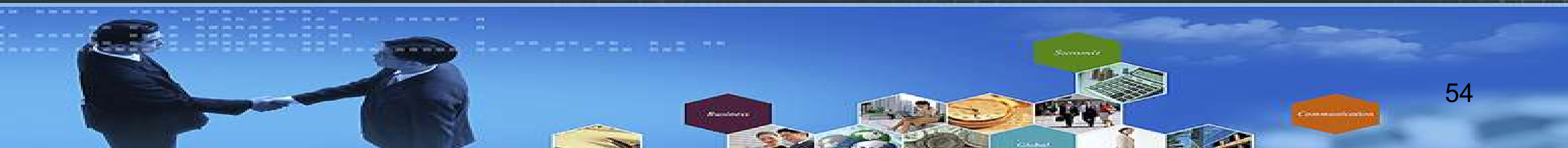
Joint Ventures Assessment



Assessment

1. If a joint venture continues after completing the single project it set out to accomplish, what is it considered?
   A. General partnership
   B. Limited partnership
   C. Extended joint venture
   D. Strategic alliance

2. How do roughly 80 percent of all joint ventures end?
   A. By dissolving
   B. By transforming to a different type of partnership
   C. In the sale of the business to one of the partners
   D. In the formation of a corporation

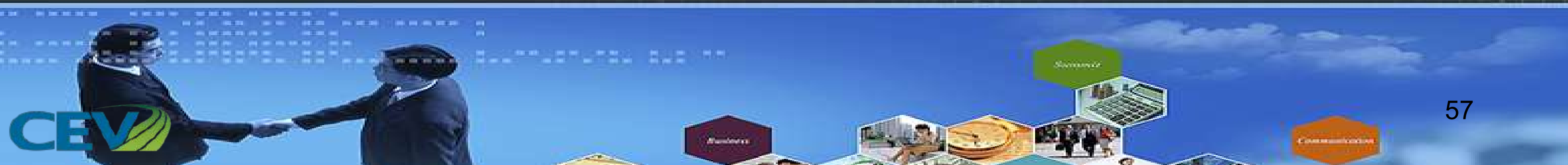
Assessment

3. What percentage of joint ventures are international?
   A. About 25 percent
   B. About 50 percent
   C. About 75 percent
   D. About 90 percent

4. Joint ventures allow for improved access to which of the following?
   A. Secure investments
   B. Specialized staff and technologies
   C. Relationships with competitors
   D. Nontraditional marketing methods

Assessment

5. Which of the following is true of joint ventures when compared to other types of partnerships?
   A. They are less time consuming and present less challenges
   B. Decision making is often slower and more complex
   C. They have lower capital costs and make money more quickly
   D. Each partner brings equal levels of expertise and investment



Strategic Alliances

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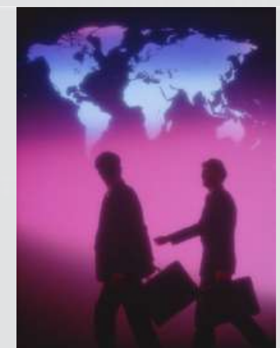
Strategic Alliance

- A business partnership formed by two or more companies for an alliance to support products or services which complement or complete parts of each company’s focus

Strategic Alliances

- Feature partners who provide the strategic alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise or intellectual property
  - example: Dell making an alliance with a laptop case company to supply cases to be sold with Dell products



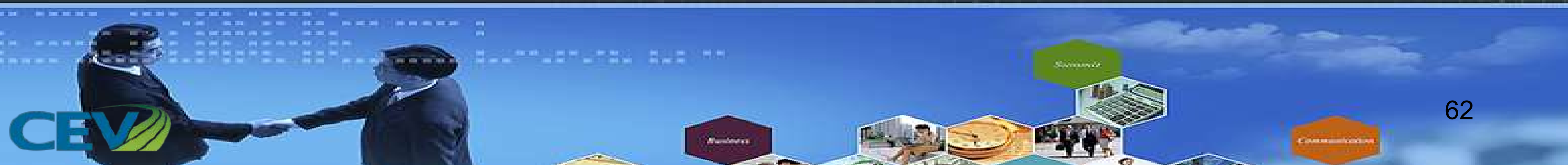
Intellectual Property: *can consist of patents, trademarks, copyrights, trade secrets or simply ideas and are protected from outside use or implementation without consent*

Strategic Alliances

- Involve each company sharing ownership, partaking in combined investments, and developing a method which will increase the performance of both companies
- Allow each partner to retain their own business independence
- Hold one company to take the lead role in any contract or marketing and the others are "partners" in the work

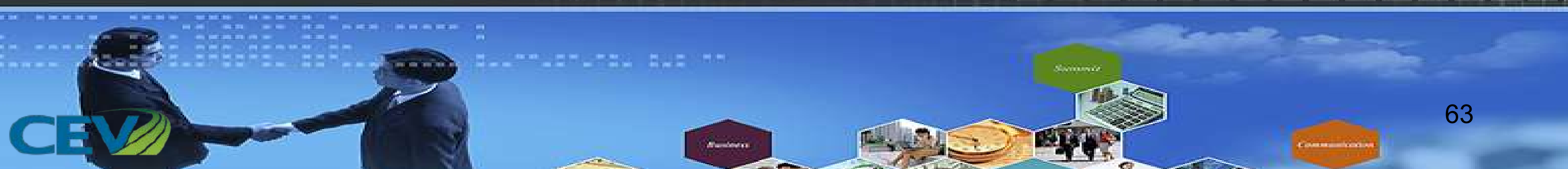
Pros of Strategic Alliances

- Each company keeps its own business independence, even though one company is primarily responsible for the work load
- Risk-sharing allows the company to seek opportunities in new markets without the worry of losing everything



Pros of Strategic Alliances

- Potential for smaller companies to grow and expand their business
- Companies are able to respond quickly to change and opportunity
- Companies are able to increase their control by gaining greater results from the company’s greatest strengths



Cons of Strategic Alliances

- High level of commitment, time and labor just like in a joint venture
- Possibility of changing strategic priorities causing conflict and increasing complexity
- Extensive search for a compatible partner
- Risk of being taken in by a larger partner

Strategic Priority: *a company's plan and series of actions to reach a specific goal*

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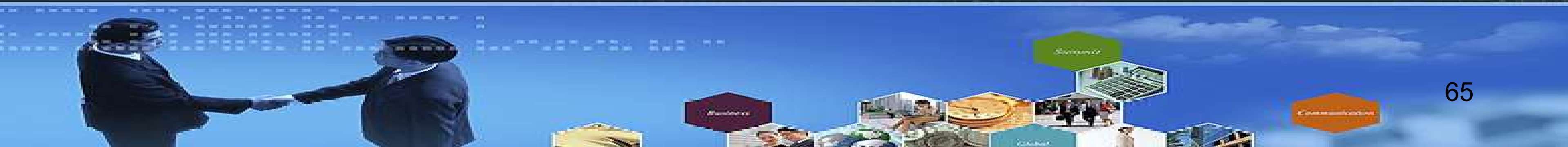
Strategic Alliances Assessment

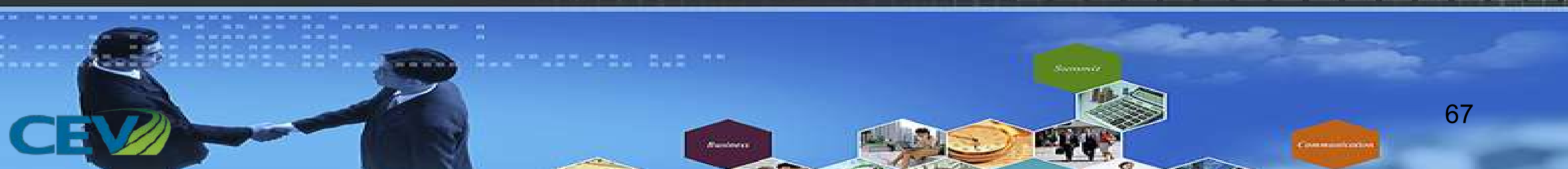


Assessment

1. Which of the following is NOT a mentioned example of a resource a member of a strategic alliance would provide?
   A. Project funding
   B. Expertise
   C. Leadership
   D. Distribution channels

Assessment

2. Risk-sharing in strategic alliances allows for which of the following?
   A. Partners can create profits without committing too much time and labor
   B. Companies can seek new opportunities without the worry of losing everything
   C. Companies can change priorities without increased complexity or fear
   D. Partners have the opportunity for growth without any risk



Assessment

3. Strategic alliances allow companies to do which of the following?
   A. Gain greater results from the company's weaknesses
   B. Increase profits without growth or expansion
   C. Sacrifice business independence for increased performance
   D. Respond quickly to change and opportunity

Assessment

4. A strategic alliance requires which of the following?
   A. Sacrifice of business independence
   B. Substantial risk of bankruptcy if it fails
   C. Extensive search for a compatible partner
   D. Each company take equal responsibility for each task

5. Which of the following is a risk involved in entering a strategic alliance?
   A. Being taken in by a larger partner
   B. The project failing and losing everything
   C. Losing rights to the assets contributed
   D. The project benefiting one partner and not the other(s)

Final Assessment

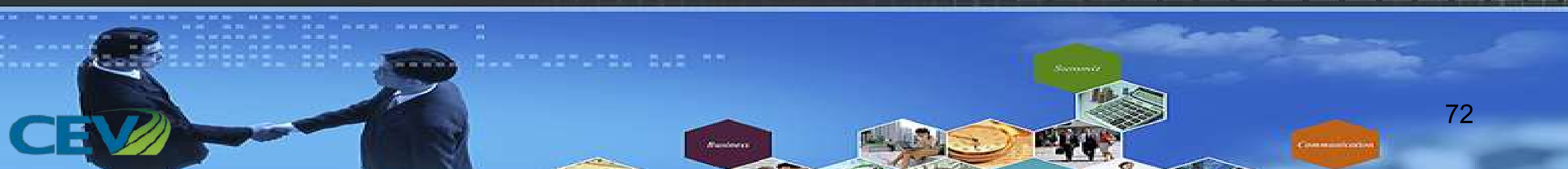
Main Menu

Assessment

1. What is a business partnership?
2. List the four types of business partnerships.
3. Business partnership agreements are made ___________.
   A. Written only
   B. Orally only
   C. Written and orally
   D. None of the above

Assessment

4. Which type of partnership uses the concept of unlimited personal liability for all partners involved?
5. Name one pro of a general partnership.
6. Name one con of a limited partnership.
7. What is a joint venture?
8. Name one pro of a joint venture.



Assessment

9. Which type of partnership includes the concept of each company keeping its own business independence, even though one company is primarily responsible for the work load?
10. Name one con of a strategic alliance.

Sources Used

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