

## THE IMPORTANCE OF PARTNERSHIP AGREEMENTS JULY 2022

A good working relationship with your veterinary healthcare team is crucial for patient care, client service, and business success. Some describe this relationship as “family.” Others say they have a great “team” or an experienced and committed “support staff.” Whatever the semantics, having a positive, productive workplace culture is critical for attracting and retaining great employees, as well as for job satisfaction and personal well-being.

Perhaps the most important relationship in the practice is between the owners. Do you have a business partner? What advice would you give those thinking about forming a partnership? You might stress the benefits, such as improving work-life balance through the sharing of duties, providing a cash infusion for business growth, having someone to help with big decisions, bringing complementary skills to help the business deal with downturns or take advantage of new opportunities, or providing a succession plan for the current owner(s). In contrast, you may share words of warning or the proverbial 'caveat' to partnerships. As with any other family/team member, partnership relationships can be challenging. To address these, specific systems must be in place to provide a path through the challenges.

Systems help the team navigate times when the “rubber meets the road” – e.g., overbooked appointments, an emergency hit-by-car, an underperforming team member, or call-offs with no replacement. Many of these systems are documented in the Standard Operating Procedures (SOPs), Employee Handbook, job descriptions, training procedures, and performance reviews. Others, like rewards and consequences, daily huddles, and team meetings, are part of the business culture. These systems are necessary to keep the team informed about day-to-day operations, duties, and responsibilities. Without them, stress, confusion, and chaos can break apart even the most tight-knit family.

Now for the multi-million-dollar question: knowing the importance of having systems for the practice's family/team, how many of you have a formal agreement in place for the business partnership? Or is this something you hope to get to when you have time? Our recommendation: Do it **now!**

When you formed your partnership, you and your partner(s) got along well, made the perfect team, or complemented each other with the skills and knowledge each individual brought to the table. In the excitement of a new venture, you may not have believed a time would come when you weren't good friends and could resolve differences easily. Unfortunately, life happens, and people change. The best time to create an owners' agreement is long before you ever need one. While everyone is getting along, work with an attorney to create a legal document that dictates how the partnership will address:

**Death** - When a partner dies, their estate's beneficiaries could become your business partners. This may be acceptable if the beneficiaries are veterinary professionals. But, more than likely, you could end up with a partner lacking any aptitude to run the practice yet still draws a share of the profits. The partnership agreement should specify how the practice, or the remaining partners buy the decedent's interest. The surviving partner should control how and to whom that interest is sold.

**Divorce** - The settlement may dictate transfer to the ex-spouse. (See death above for reasons why this may not be in the business's best interest).

**Permanent Disability** - Shares may be subject to control by family members - as with death or divorce, they may want to sell the shares to cover the cost of care. Decisions about whether a partner can retain an ownership interest if they are unable to work must be in the agreement.

**Dispute** - A disgruntled partner can create a barrier to strategic decisions, such as blocking an investment or preventing a sale when roles and responsibilities are unclear.

**Dissolution** - The shares may have been an incentive or reward to form the partnership, but what happens when a partner wants to leave and take/sell their shares?

**Do-Nothing** - Not contributing to the business but receiving a salary, dividends, voting rights, and other benefits because there is no plan in place to protect the interests of the other partner(s).

**Development** - Growth and development may require investors or lenders such as venture capitalists or banks. In the absence of formal agreements, they may be wary of any deal because their interests are not protected.

While death, divorce, and disability may seem like a stretch for your current situation, let's look at a few other situations. As you read the following scenarios, ask yourself two questions: What would you do (or prefer), and can this partnership survive? Then decide if it is worth skipping a partnership agreement.

**Scenario #1:** The two of you were best friends in vet school and decided to go into business together. Your partner has just welcomed the family's first child. A few months later, your partner chooses to work part-time. There is no agreement in place - so, what now? Should the part-time partner still be an owner? Does their compensation change? Does yours? How much will this cost - either in lost earnings for the full-time partner or legal fees to broker an amicable agreement when one partner contributes less than the other? Looking beyond the financial details, can the partnership survive this and continue on good terms?

**Scenario #2:** A classmate calls you to vent about their situation. They and two other colleagues entered into a partnership a few years ago. In addition to agreeing on an equal split of shares, they delegated management duties and established salaries based on those duties. Now, one of the partners has decided to retire. However, the retiring partner expects to continue to receive their normal salary and remain an owner. Furthermore, the retiring partner hired a family member to take over management duties at a higher salary than is typical. This set-up is fine with the other partner (they didn't want to take on more management duties and expect to continue receiving their established percentage when they retire). However, your friend does not favor keeping the old arrangement and feels it needs to be renegotiated to reflect the changes. There is no formal partnership agreement. What would you suggest? Can your friend terminate the family member even though they are doing a great job? Should your friend buy out one or both partners? Can the partnership survive?

When faced with either scenario, did you think legal documents would make this easier? Did you look at your situation and wonder, “What if”? Funny how we tout preventive medicine for our patients but fail to practice preventive management to avoid legal hassles for ourselves. Make a move to formalize your partnership agreement.

A Partnership Agreement (also known as a Shareholders' Agreement, Members' Agreement, or Agreement Among owners, depending on the hospital's legal entity) is a legal document that outlines the business's day-to-day operations and the rights and responsibilities of each partner. While not required for starting or managing a business, having a legal agreement aids in clarifying specific terms and conditions of the working relationship.

Owners' Agreements may include how to:

- Pay owners
- Add new owners
- Dissolve the agreement
- Share costs and profits
- Handle divorce, death, and disability
- Handle disagreements
- Define who owns what or what percentage
- Define duties, roles, and authority
- Set up the buy-sell agreement
- and more

Of course, there is “more” because each partnership is unique, and the agreement will reflect that. We strongly encourage you to seek legal counsel (even though plenty of Partnership Agreement templates are available online). The legal fees to set up the agreement are a small investment compared to the potential cost of not having a system for handling disputes or changing circumstances.

The decision to enter into a partnership may have been easy given all the benefits – reduce the workload, divide duties, reduce financial commitment, achieve work-life balance, etc. The pros certainly outweigh the cons (giving up some control and sharing profits). But did you discuss all the potential negative developments before the handshake “sealed the deal” to form a partnership? Without a partnership agreement, you are assuming a risk - maybe even a multi-million-dollar risk.

If you would like a list of attorneys who are experts in veterinary business law, feel free to contact us. Or go to <https://member.vetpartners.org/Directory>