

Predicting the Partnership Break-up

Predicting a partnership breakup is pretty easy to do. Look at a partnership and identify whether one person is disproportionately responsible for the work/success and/or compensation is disproportionate to value. If balance does not exist in both areas, a significant partnership dispute is just a matter of time. The only questions are when and how volatile.

I believe just about every set of partners I have ever met that have been in this situation but were not ready to have at least a minor explosion, yet, have said of the partnership, "We're different." I have only met one that was really different, and the reality was they were unique in applying skill sets so that on the surface, the work/compensation balance was distorted but more deeply, balance existed.

The stresses of 2020 and 2021 seem to be causing unbalanced relationships to teeter and fall more frequently.

Another prediction that is almost always 100% true is that the person doing the most work will be taken advantage of twice. What happens is the person contributing the most works hard and is not compensated equal to their value added while the other party does not work so hard but is paid well. The compensation schemes were developed long ago and equalized in the spirit of a good partnership. However, adequate accountability and flexibility was not included in the agreement. Then one partner quits performing.

A good example of this conflict is setting compensation salaries somewhat equally. Then one partner develops a book of \$750,000 in commissions and the other partner's book is only \$250,000, but they are paid about the same. When they both started out with books of \$0, equal compensation made sense, but not now.

The hard-working partner is then taken advantage of a second time at the sale of the business because proceeds are apportioned by shares. 50%/50% partners split the proceeds equally but clearly the partner who generated 75% of the commissions brought far more value to the agency and they won't be credited with the additional value.

No wonder they resent and never talk to their former best friend ever again.

The situation is exacerbated when the problem drags on for years and years. The hard-working partner inevitably tries to motivate his partner, prays his partner will find his mojo again, and sometimes hopes his partner will just show up for eight hours a day for appearance purposes. Usually nothing ever works. So after years of cajoling, pestering, badgering, motivating, praying, and whatever else the person can think of doing, they finally give up.

They always think they have failed to change the other person, which is true. What they usually also fail to see is that it is absolutely in their partner's best interest to do nothing. The longer they delay changes, the longer they ride the gravy train. Quite often I do not believe these partners consciously choose the gravy train, but subconsciously their choice is pretty much undeniable.

My suggestion: cut your losses early because the damage will only get worse. The emotional toil, the financial toil, the damage to relationships and morale and often your own family only gets worse with time.

Another reason to cut your losses early is because when a person gets used to being paid well for relatively little work, they begin to think they are doing a lot of work. They get used to a relaxed lifestyle and then when the issue is forced, their fear is like that of a cornered wild animal. Some readers who

have not experienced these situations may think I am exaggerating. I am not exaggerating, however these people are usually salespeople so they put a good lipstick on their actions.

If the situation becomes so hostile that lawsuits evolve, all rationality is thrown out the door. The hardworking partner always makes the same case: "I brought more value. I supported his lifestyle. I did all the work. He was richly paid. Now I am in a suit and he is demanding I pay him extra again! This is not fair!"

The situation is categorically not fair, but categorical fairness has nothing to do with anything at this stage of the dispute. The odds are great that you will go to your grave with resentment and a smaller estate.

If you want to protect yourself, here are some steps:

1. Always have a strong buy/sell agreement that is well written and specific to independent insurance agencies.
2. Set compensation based on effort and success, not ownership percentages. The IRS's Reasonable Compensation Rules actually provide solid outlines of how to achieve this structure. Then memorialize the compensation structure in writing.
3. Have your agency valued by someone who will take the time to analyze the agency and each owners' contribution to the agency's success. Let a third-party be the bearer of negative news.
4. Do not put up with passive aggressive behavior from an underperforming partner. Pull the buy/sell trigger early. I know it is hard. You will pay an emotional price regardless of whether you pull the trigger early or late. The only difference is the length of time you'll be weighed down.
5. Don't be selfish. You have others to consider. You have employees and employees do not respect underperforming partners from a business perspective. Morale is not improved. You have your family to consider. You have customers to consider. Letting an underperforming partner maintain their position is putting one underperforming person above the needs and deserved rewards of many other people. Your partner may be selfish in their passive/aggressive unintentional manner, but you owe it to others to see the bigger picture.

I have had these underperformers be so bold as to advise they would die before they gave up their unfair compensation and value. I have had them advise me they had no idea they were underperforming. I have had them tell me everything in-between and believe it all. Predicting which partnerships will bust and who will suffer the most is pretty easy to forecast. Protect yourself and those hardworking people around you.

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