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WHY BUSINESS PARTNERSHIPS FAIL & HOW TO AVOID BAD PARTNERSHIPS

Business partnerships aren't always easy. When two or more people go into business together, each brings a unique set of values, perspectives, goals, assets, and motivators. There are bound to be challenges.

Many business owners simply click. They may be a friend, colleague, or family. Business owners that click will share the same vision, complement each other's skills, and have only minor differences in opinion.

Other partnering business owners have to work at it a little more over time. These owners may have reasons for disagreements, but both people show the emotional intelligence to compromise and make joint decisions. Along the way, the business and partnership grow in tandem.

Finally, there are those business partnerships that fail. While you certainly need to be aware of this possibility, don't let it keep you from considering bringing a partner into your business. Gain a good understanding of why business partnerships fail and how to avoid bad partnerships, bad exit strategy, and conflict so that you can go forward with confidence in yourself, your business partner(s), and your company.

Common Reasons Why Business Partnerships Fail

Some statistics and recent surveys show that up to 70% of business partnerships fail over time—but why? Is it really that hard? We can't speak for each case, but we can point to some common reasons, themes, and threads of conflict that tend to break up business partners, including:

Business Failure

Starting a company alone is an exciting endeavor. Add a business partner to the mix, and the increase in energy can further the creation of significant impact for the company. However, if the business doesn't grow as planned, the letdown can create conflict, seeping into the personal relationship. The partners may second guess themselves and each other—or worse, begin to panic and argue. Undoubtedly, failed business is a risk factor for a failed business partnership. But that's not to say that a failed business always ends in a blowout or blow up between partners.

A failed business partnership can come from many things, for example, a poor management team, a lack of financial security, bad exit planning, or even children/family issues. A failed business partnership can be a matter of fact and not necessarily a reflection on the partners or their personal relationship.

Business Success

You might be surprised to hear that a successful business can create friction between partners, just like a sinking one can. Maybe the company grows too fast

to manage, tax implications prove to be difficult, or it turns into a beast that one or both of the business partners didn't anticipate. The bigger a company grows, the bigger the decisions become, and the more pressure the partners may feel.

Take, for instance, a manufacturing company that triples its revenue from year one to year two. That is explosive market growth that directly impacts the partners' lives in more ways than expected.

One partner might want to roll up their sleeves and put in long hours to quickly scale the business while taking a higher salary or retirement package. The other partner might prefer to hire the next generation of employees and keep the same salary so that the company can scale at a sustainable pace. The partners have the same goal of scaling, but different viewpoints on what it means and what process to use to get there. That leads us to...

Different Visions

In business, vision is everything. It's a guiding light, especially when things get difficult. Many partners start their businesses without truly discussing a shared vision, much less agreeing to one. Perhaps one partner is getting advice from other leaders in the industry, and one is not. This can lead one partner down different avenues and to conflicting ideas compared to another. Differences in vision might also arise at pivotal moments for growth, as in the example of the manufacturing company above.

Lack of Communication

Through the ups and downs of running a business, communication keeps business partners on the same page. With a lack of communication, partners are prone to those small, tiny rifts that seem like nothing but slowly simmer and potentially boil over. Transparency is also crucial. A lack of communication without transparency borders on deceit, and that's when a partnership can really implode.

No Advisory

It's impossible for two people to know everything about business and possess all the skills needed to succeed. When business partners neglect to hire professionals such as an accountant, financial planner, attorney, and exit strategy consultant, both people may not be happy with their own decisions later on. Bad decisions lead to bad partnerships, and without expert advice, business partners may not see their way through business setbacks, among other things.

Money

We all need money to survive and take care of our families. And when we go into business, we expect to make and take that money on our terms. But businesses need money, too, for cash flow, expenses, and growing financial objectives. Many entrepreneurs make a lot less than you might think because they are constantly putting money into their companies and business-related things. If one partner needs or wants more than the business can support, we have a problem. One of the partners and/or the business will have to sacrifice. This, paired with any or all of the reasons above, could magnify financial conflict.

Life

Just because a partnership fails doesn't mean it's someone's fault. Sometimes, life just happens. Milestones, tragedies, or purely a change of heart can cause partners to split. Even in serious disputes, we have to remember that everyone is living their own story and fighting their own internal battle. Again, make sure you don't let the fear of a failed partnership stop you from going into business with someone whom you believe in as a business partner. When it works, it's wonderfully rewarding.

Quick Tips on How to Avoid Bad Partnerships

Now that you know why and where partnerships often go wrong let's talk about how you can get a business partnership to operate successfully. Remember when we cited that up to 70% of business partnerships fail? On the other side, that

means at least 30% of them succeed. With more than 30 million small businesses in the U.S. and many of them owned by partners, there are hundreds of thousands of business partnership success stories out there! People do it, and so can you. Here's a roadmap to put yourself, your partner(s), and your business on a path to flourishing:

Know the Person Behind the Partner

Whether you're starting a business with a friend, family member, colleague, or acquaintance, you really want to have a strong understanding of who they are going into it. What drives them? What inspires them? Are they an introvert or an extrovert? What are their skillsets? How about their weaknesses?

These questions may be easier or more difficult to answer, depending on how close you are to your prospective business partner(s). Even if working with a friend or family member seems obvious, make a conscious effort to consider personality traits and how they may translate in business. You need to truly know someone in order to trust them, respect their opinions, and communicate effectively in a partnership.

Build a Business Plan

The failure rate of small businesses should be far more concerning to new entrepreneurs than the failure rate of business partnerships. The Bureau of Labor Statistics estimates that roughly 20 percent of small businesses fail in the first year, 30 percent fail by the second year, and 50 percent fail by the fifth year. You can do everything right in your business partnership, but if your business doesn't have the foundational and functional elements to succeed, even a strong partnership can struggle over time.

Develop an in-depth business plan and scrutinize—or better yet, challenge—your assumptions of success. In addition to building a good business, making a business plan is an essential (and fun!) exercise that can bring you and your business partner into alignment.

Create Clear Roles

Within a good business plan, identify the responsibilities and processes each partner will take on. Clear roles tie back to getting to know your partner so that you can lean into their strengths in synergy with yours.

Two partners focused on the same clear tasks will leave blind spots in the business, including ones they could have recognized prior and brought on additional partners and/or built a clear leadership team to address. Plan for growth in each partner's role. You both might find yourselves in the weeds at the beginning, but ultimately, you are deciding to be a business owner because you have a specific vision for your work, your life, and the balance between the two.

Agree and Sign to Terms

If there is ever a question about money, work, or the relationship in general, a business partnership is only as strong as the paperwork in place. A partnership agreement usually encompasses allocations, contributions, authority, duration, commitments, dispute resolution, and governance. Perhaps most importantly, it should also outline what happens if a partner leaves the business, whether by withdrawal or death. Rather than download a template and write an agreement yourself, we highly recommend hiring an attorney for the business to walk you through the many considerations and draft a final agreement. Think of the agreement as both a key to success and a safety valve for failure over time.

Make a Runway

Business moves fast, but that doesn't mean a business partnership needs to race alongside it. If you're uncertain, worried, or skeptical but do want to give it a try, simply lower the stakes. You can build your business plan and partnership agreement on incremental success, letting milestones like revenue and profit serve as next steps as business owners. If you're a solo entrepreneur looking to take an already-successful business to the next level by bringing in a partner, an

agreement may be the right approach, as it allows you to defer giving up a true percentage of ownership while incentivizing new business owners to perform.

Expect Challenges

You're starting a business because you want something more than the average job. You want to make a personal impact and feel fulfilled in life. The same goes for your partner. You each have a lot to live up to, individually and in the partnership, while navigating the many wrenches that entrepreneurship will throw your way. There will be challenges like the ones with which we began this article. Don't ignore them, don't hide from them, and definitely don't dwell on them. Take them in stride and work to solve them together. Adversity makes success all the more rewarding.

Embrace the Journey, Envision the Win

A successful business partnership is exhilarating, enlivening, and purposeful. It's one of the most gratifying personal relationships you can have in life. Don't worry so much about why business partnerships fail. Focus instead on how yours will succeed and what your ideal exit strategy looks like. Every business owner exits one way or another. Fast-forward to 10 years from now. With planning, poise, and a thriving business partnership over time, you may find yourself and your business partner on beach chairs, clinking beers to celebrate your business sale.

Build a Stronger Partnership or Exit on Your Terms

Partnerships can unlock incredible growth, but when they fail, they often leave behind financial strain and fractured relationships. With the right guidance, you can protect your investment, resolve conflicts, and create a clear path forward, whether that means restructuring or planning an exit.

Contact Us to explore solutions that safeguard your business and set you up for long-term success.



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