

A Recipe for Dispute Resolution for Family Businesses

| By Michael R. Freed, Esq.

A large number of small to medium sized businesses are made up of people related by blood or long term friendship. Although such relations can often be good foundations on which to start and build a business, it is a mistake to see that underlying foundation as a substitute for appropriate business documentation. Without such documentation, success, business struggles, greed or other dynamics can lead to uncertainties and business failure.

Family and Friends as Business Partners

Some of the most successful enterprises are co-owned by family or long-time friends. Brothers Dick and Mac McDonald started McDonald's as a single hamburger stand in California in 1950, which was later franchised by Ray Kroc. In 1961, two friends, Wendell Cherry and David Jones, started Humana, Inc., which later climbed to a Fortune 150 company. Fortunately Cherry and Jones were both lawyers who appreciated the importance of business formalities.

For many it's a seemingly logical choice: who better to trust as a business partner than a friend or a family member. Through friendship, bands of trust are forged; a sense of trust and comfort follows blood relationships. Many business concepts derive from casual conversations with friends or family members. For these reasons, it is not surprising that many businesses are co-owned by family members and long-time friends.

Problems often arise, however, not because of the choice of friends or family as business partners, but in the false comfort that comes from such relationships. This lulls people into believing that there will be no issues that cannot be resolved "as friends." As a result, participants in such businesses often neglect the formalities that business people should put in place to govern critical issues that can -- and usually do -- arise.



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