



Disputes with Business Partners

Suppose that you fall out seriously with some of your business partners – the other directors and shareholders of your company, or the partners of your firm. It may be about the direction of the business, the distribution of the profits, or the promotion of the staff. It may be about succession. Or you might feel that your colleague isn't pulling their weight, or even that they have their hand in the till. How are you going to deal with things?

The legal options will depend on the legal structure of the business – is it a Partnership, or a Limited Company, or a Limited Liability Partnership, or LLP? But the underlying difficulties will remain.

You will need urgent and authoritative advice on whether you will be able to win the argument should you have to go to court, and what the practical options are likely to be. Following on from there you will need to choose whether you want to stay with the business, or whether it is better to look for an exit strategy, by selling your shares, or share in the partnership to some of the others.

While this is going on the business itself - the restaurant or the building firm or whatever - has to continue in order to protect the value of everybody's share. This may not be easy. And some businesses are more susceptible to losing customers or valuable members of staff than others at this crucial time.

You don't want to get dragged into protracted litigation. This can be remarkably expensive, and often results in the death of the business while the owners are arguing about it in the courts. However, you may need to take some urgent and vigorous court action, such as an injunction, to protect your position, and hopefully persuade your opponents to talk.

Because realistic discussions are the only way to bring things to an end without it proving to be a disaster all round. This might be through a mediator or other form of ADR, or between both parties' lawyers, or even with the aid of local business or community leaders. And any agreement has to be realistic and well drafted, so that all parties know what they have to do.

Of course, you really need to have thought about the likely problems at the outset, when the business was set up. A well drafted partnership agreement will have rules on voting between partners, not allow one partner to bring the partnership to an end without the others agreeing, have an arbitration clause and rules on how the accounts are prepared and so on. Remember that if you trade together with others with a view to making profits then you are legally in partnership, and the Victorian rules from the Partnership Act 1890 will apply unless you have agreed something else in writing. And a well organised company will make provisions to cope with the deadlock that otherwise arises if two equal shareholders and directors fall out.

Whatever the position, you need independent and realistic advice, from somebody who has the experience to understand the business picture as well as the legal one, and who has contacts with the mediators, specialist accountants, barristers, and the others who you will need in order to get the best results.

If you want help on a dispute inside a business, contact Alan Lodge, our Head of Litigation. He has over 30 years' experience to help you make the right decisions. Send him an email at alan@davidleesolicitors.co.uk Or call him on 01926 852188.