International Journal of Business Management Insight & Transformations
Vol. 2, Issue 1 - 2018

A STUDY ON THE BENEFITS OF PARTNERSHIPS

FK MUSWEU*

ABSTRACT

Various studies have been done on partnerships and there benefits for several years. This article focuses on partnerships as business entities as well partnerships that have occurred between large organisations with citations of examples from both the global and Zambian perspective. The focus of this article is to describe the features of partnerships and outline the various benefits that accrue from most forms of partnerships. The information in article is entirely collected through secondary research, specifically from scholarly articles in legal studies, accounting and finance, various text books in law, accounting and finance and journals from professional bodies. The emphasis of the article is mainly focused on institutions with the Zambian background, although examples are cited from other countries.

KEYWORDS: Partnership, Synergy, Resources, Finance, Pooling Of Skills, Business Entities.

INTRODUCTION

This articlediscusses partnerships from two perspectives. The first perspective is a partnership as business entity i.e. the relationship between individuals to carry on a business with the aim of making profitand the second perspective is the partnership between large companies to obtain specific benefits or achieve specified objectives. The focus of the article is to give a description of partnerships citing examples from both the global perspective and Zambian perspective. In addition the benefits of partnerships are discussed and winding up with the conclusion and recommendations.

OBJECTIVE OF THE STUDY

- Give an account of the various forms of partnerships, particularly partnerships as business entities and partnerships between organisations that are huge in size.
- Outline the benefits that can be attained from the creation of various forms of partnerships.
- Justification for encouraging companies and individuals to enter into partnerships as well as stating the limitations they may possess.

WHAT ARE PARTNERSHIPS?

A partnership is an association that can be formed between two or more individuals for the purpose of engaging mainly in order to gain profit. The minimum membership in a partnership as a business entity is two and the maximum membership is twenty.

*Department of Commerce and Management Studies DMI St Eugene University, Zambia.
Correspondence E-mail Id: editor@eurekajournals.com

 ISSN: 2581-4176

Professional firms such as legal firms' accountancy firms and audit firms operate as partnerships.

Partnerships may be established for purposes of pooling of skills, experiences, knowledge, contacts, finances, assets or a combination of any two or more factors. At individual levels, people may realize that they did not have adequate skills, knowledge or finance to run a business on their own, but as a team, they could achieve more "BPP Learning Media, Page 3, 2009" On the other hand large organizations have also created partnerships among themselves which have resulted in a lot of benefits to these organizations and examples of such partnerships are stated below.

From the global perspective one major partnership is between Mc Donalds and Pepsi in USA. The essence of the partnership was to enable customers have access to both food and drinks in one roof, this became the proposition "feed them and when they become thirty we will offer them drinks"

From the Zambian perspective the major partnership was between ZANACO Plc., ZESCO Ltd and Multi choice Zambia Ltd where customers would be able to pay for electricity and DStv subscription by using a xapit account.

BENEFITS OF PARTNERSHIP AS A BUSINESS ENTITY

People may have lucrative business opportunities with the potential of generating substantial revenue, but they may not be able implement them due to inadequate resources in terms of skills, finances and time and they are explained in details below.

SKILLS

An individual may not be able to provide a variety of necessary and needed specialized skills to their clients. Due to their limitation in skills it may be necessary for them to bring in other individuals in the business to partner with who may contribute to the shortfall in skills. By so doing there will be a breadth of skills in the business. For example in an accountancy firm one partner may be an accountancy expert and the other partner may be an expert in taxation, therefore the firm may not only carter for accountancy consultancy, but may also provide tax consultancy and the firm is able to provide the breadth of skills in that manner.

FINANCES

A person may not have adequate capital to implement all business activities thus partnering with another individual to bring in extra financial resources to cover up for the shortfall in capital becomes necessary. Adequate capital to meet the financial needs of all the business will be enabled by contributions from partners. Certain business opportunities or tenders require minimum capital; hence if an individual does not have enough capital then going into a partnership will be justified for the purpose of having adequate capital to take advantage of such business opportunities.

TIME

Sometime a person may have business opportunities which may yield adequate returns if executed, but they may not have time to execute them, it will be necessary to decide to partner with another person or persons who may have enough time to spend on the activities of the business. An individual lacking adequate time will act as dormant partner and the other partner brought into the partnership with adequate time to spend on business activities becomes an active partner.

BENEFITS OF PARTNERSHIPS CREATED BY LARGE COMPANIES

Many large firms have benefited from the partnerships they enter into with other entities and the benefits are stated below.

 ISSN: 2581-4176

SYNERGY

Much of the benefits of larger entities partnering to engage in particular activities are associated with synergy. Synergy is said to occur where the sum of combining resources is greater than the sum of the parts which are combined. It is frequently referred to as '2+2=5' *"BPP Learning Media, Page 8, 2009"*.

Synergy is specifically of most importance and relevance when a company is considering diversification strategies, and particularly where these strategies involve mergers with other companies. For instance an organisation having excellent range of products but limited channels of distribution may benefit from the synergy resulting from a merger with another company which has strong channels of distribution the effect of the acquisition may be such as to offer extra benefits to the acquiring company as a result of linking a good product range with the acquired firm's strong distribution channels.

COMBINED RESOURCES

The firms could benefit from combined resources. Companies increase their financial base when they partner each other, thereby enhancing their economies of scale. This increases there bargaining power which will bring benefits to the companies in various ways such finding it easy to raise funding. Furthermore the ability to offer their product and services at a cheaper price due to the benefits associated with economies of scale, thereby gaining competitive advantage over their competitors in attracting customers and enhancing their market share in the industry in which they operate. Companies may also benefit from each other with regards to other resources that they are lacking such non-current assets and marketing facilities and so on. In one example stated above ZANACO Plc. provides remittance facilities to the convenience of customers paying for electricity and DStv subscription the benefit trickling to companies in the partnership, ZESCO Ltd and Multi choice in particular. Nowadays most governments and institutions are encouraging citizens to use financial services as much as possible when they engage in trading activities such as acquisition of products and services, ZANACO Plc. and government benefit in that sense.

BENEFITS ARISING FROM ACCESS TO ATTRACTIVE MARKETS

Companies are eager to penetrate attractive markets, but certain factors may hinder them from doing so such lacking knowledge of local markets, particularly buying habit and product preferences of the local customers. A partnership with a local firm can be used as a way to gain advantage of the local markets and gaining knowledge of the local markets.

Furthermore companies in a partnership may benefit from each from the technical expertise one company may have in comparison to another.

Partnerships may also be used by companies to enter into isolated markets or new markets through alliances with local firms. Not only can local firms offer local market knowledge to their counterparts, they can also help in establishing vital relationships with key officials in the local area, including officials in leadership positions and those holding political office. Usually businesses that get backing from such influential individuals are likely to be successful in achieving specified objectives.

Businesses that do not involve local firms in entering distance and new markets, including the involvement of officials who hold influential offices may suffer from hostilities when entering such markets. The local residents may resist both the products and the company

 ISSN: 2581-4176

preferring the local products and companies. Therefore partnerships play a key role in resolving such drawbacks.

COMPETITIVE ENERGY

Partnerships between companies can strengthen competitive energy of companies more towards the rival companies and less towards one another enabling them to compete effectively with leading firms and closing up the gap on leading and rival companies. This benefit is derived from the synergies that evolve when companies enter into partnerships.

CONCLUSION AND RECOMMENDATIONS

The benefits of partnerships stated above are the basis for justifying why individuals as well as large organizations should embrace partnerships. Partnerships have enabled organizations and individuals achieve their objectives such as enhancing their financial status and market standing in this dynamic and competitive environment. Partnerships have led to individuals and companies cover up in what they are lacking e.g. lack of financial resources, lack of skill and knowledge, lack of facilities and so on.

It is vital to state that partnerships should only be arranged when the situation calls for the formation of partnership. In spite of the advantages discussed, partnerships as business entities may also have inherent limitations such as lack of contractual capacity and unlimited liability hence careful analysis needs to be undertaken before individuals enter into partnerships. Partnerships like stated above are usefulfor the purpose of bringing adequate resources together in terms of time, finances and skills to accomplish the business opportunities available.

Partnerships are particularly important in international trade where a foreign firm can enter into partnership with a local firm as the means of entering local markets which may be usually unfamiliar and hostile. The benefits discussed above may accrue to both the foreign and local firms as well as eliminations of various barriers which are discussed above.

Therefore partnerships are a worthwhile consideration for individual and organizations to engage in to achieve specified objectives.

REFERENCES

[1]. Eagle Publishing, ICSA Corporate governance.
[2]. BPP Learning media Ltd, (2007), ACCA Paper F9 Financial management, First edition.
[3]. BPP Learning Media (2007), ZICA Business and Company Law.
[4]. BPP Learning Media (2009), ZICA Management.
[5]. BPP Learning Media (2009), ZICA Strategic Management.
[6]. Colin Firer, Stephen A Ross, Randolph. W. Wester field & Bradford. D. Jordan, (2004), Fundamentals of Corporate Finance, Third Edition.
[7]. Eun, Cheol S.; Resnick, Bruce G. (2011). International Financial Management, McGraw-Hill/ Irwin, 6th Edition.
[8]. Juta& Co Ltd. (2007). Southern African Corporate Business Administration, Thirteenth Edition.
[9]. H.M. Coombs &D.E. Jenkins, (2002), Public Sector Financial Management, Third Edition.
[10]. Moffett, Michael H, Stonehill, Arthur I, Eiteman and David K. (2009). Fundamentals of Multinational Finance. Boston. MA: Addison-Wesley. 3rd Editio.

 ISSN: 2581-4176