

Memorandum of Understanding - How it Works

It starts with simple conversations at the dinner table. Eager professionals—often on the verge of success in their respective fields—are looking to take things to an even higher level. Talks of establishing startups or collaborating over complex deals start shaping up. As the dialogue goes on, it becomes clear that while their intentions are serious enough, it is still too soon to start drawing up [contracts](#) or [agreements](#). So what can these professionals do? The answer to that comes in the form of a [memorandum of understanding](#). Convenient as that sounds, such a document isn't always easy or straightforward to create, as you'll see soon enough.

What Is a Memorandum of Understanding?

A memorandum of understanding is a document that outlines an agreement's preliminary details. This comes in handy after initial meetings and discussions between potential business partners conclude—one where some form of agreement has been formulated. It isn't legally binding, but it does serve as an indicator that the parties involved are willing enough to proceed with their arrangements. Another thing about memorandums of understanding, often abbreviated to MOU, is the fact that it is often subject to changes. Different entities make use of this all the time, ranging from individuals to groups like government agencies, schools, and even non-government organizations.

Crafting a Memorandum of Understanding's Contents



Now that you're better aware of what the document is and who gets to use it, we can turn our attention to its contents. A memorandum of understanding either comes as long and detailed accounts of the agreement or as shorter and more concise versions of it. It's up to companies to choose which one works better with their current arrangement. In general, this document bears a similarity to [letters of intent](#), as the focus remains on acknowledging the agreements between parties and the intention of formalizing it later on. Below are the more specific parts of a MOU, along with their respective descriptions. Each is vital to the sum of the document.

Intentions and Goals of the Partnership

The document begins with the summary and description of the objectives of the different parties. It has clauses that discuss end-goals on the accounts of both entities. Each of the parties has personal reasons for choosing this collaboration from other enterprises. With that information, it would be clear that the intention of the memorandum centers on the advantages of this particular partnership and the positive effects it poses for both companies.

Naming the Parties

Following that part would be the name and details of the established business partner. Sometimes, the other company may opt to [select the business name](#) instead of the representative. This process is fine and acceptable, as long as the content and details in the document are accurate. There are no restrictions on the number of people and names written on the material. However, each one of them should do their responsibility in the project or plan. Moreover, the team organizing the MOU should make sure that there are no errors in the names, addresses, designations, and contact details of the people involved in the agreement.

Responsibilities and Roles

After the list of names, the next section focuses on the duties and roles of the different parties. In most MOUs, the sole obligations of each company are on separate pages in the document. Then, the succeeding pages will concentrate on the shared responsibilities of the firms. Since this portion takes on the management and leadership of the entities, it is quite lengthy. Nevertheless, having all things clarified for the convenience of everyone saves time, energy, and resources. In addition, it includes the activities and proposed [schedules for the project](#). The graphic output, protocols, and benchmarks can be on this side of the material as well.

Duration of the Understanding

Another essential part that needs clarification is the [timeline](#) of the work. MOUs serve as the first among many agreements and contracts that may come in the working relationship. But, it has a definite time frame and deadline. So, in this part, the two companies must come to terms with how long the MOU lasts, following, of course, the signing of the next agreement or contract. Some MOUs have a duration of a few months, at most three to nine months. Others choose a little over one year, but not close to two years. Either way, the two have to decide on the dates.

Financial Obligations

The arrangements of the companies depend on the needs or requirements of the plan. In some cases, the business partner can be the financier or backer of the project. On the other hand, both corporations can have financial obligations, each supporting a different element in the plan. When funding is low, the two parties can compromise to complete the missing necessities for the project. Nonetheless, the enterprises should agree on the investment that each will spend on the plan. And that setup should be on the MOU. Do remember that the details can change upon the creation of new contracts or agreements.

Disclaimers and Risks

Every investment comes with risks and some bits of uncertainty. No matter what type of plan there is, complications can emerge from tiny things. There are also uncontrollable factors that can disrupt the workflow and the direction of the project. Companies [going into partnerships](#) need to be aware of these plausible challenges. With that, the MOU contains the list and descriptions of possible threats, issues, and outside forces that can cause delay or alter the work. At times, businesses also include disclaimers to be excluded from liabilities, if applicable in the situation.

Signatories

And lastly, the signatures of the people involved in the agreement. If it calls for a representative, the company must have one to sign the document. Again, this material is not legal. But the signature proves that both entities are willing and able to work together. Furthermore, the document does not need the tinkering of a lawyer. The planners are in charge of the contents of the material. The other party can check the contents before signing to address errors or additional information. When done, both companies have copies of the MOU.

Step by Step Process of Organizing a Memorandum of Understanding



After learning about the specific parts of a MOU, the next step is discovering the process of putting them all together. Having a process is an effective way of saving both time and energy. The memorandum of understanding has a structure, and even when it can vary from one company to another, the methods are somehow the same. In this portion, the main focus lies on the approaches that help planners organize the MOU comprehensively. Here are the five steps in compiling information for the document:

Discussions Before Writing

Before starting on the drafts, make sure that the two groups have undergone enough discussions and planning. There should be an outline of the things that two companies have thoroughly discussed, and the assessment of the strategies that they will use for the project. If there are questions about specific areas in the plan, it must be pointed out while in the planning process. To avoid confusion, secretaries and planners have to be present during the meetings of the enterprises. Moreover, there should be schedules on conferences and assemblies that the two businesses have to attend and complete.

Compromises Among Parties

Often, there are misunderstandings during the consultations of the two groups. Sometimes, it may be about the number of products or the endorser(s) to hire during the promotional plans. Other times, it is about compensation for the two enterprises.

However, as this plan or project includes both companies, there should be a common ground for everyone. For that, both businesses have to be more open to compromises. If unfortunately, the other company restrains itself from participating in a trade-off, then the other party has to take a step back and consider the consequences of the actions.

Assigning Duties for Members

When that part is finalized, the next part is on the responsibilities of the people involved in the project. The assignments of the members are in detail, including the duration of the duty. Importantly, it also contains the list of people working hand in hand to complete tasks. For instance, if a particular part of the project requires the assistance of representatives from both parties, then it should be on the document. When the person-in-charge is not available, then the names of the substitutes should also be written on the MOU. Having an informative list helps avoid work errors and miscommunication.

Finishing the Tiny Details

Making sure that every small detail in the document is factual matters to the businesses. If one information is incorrect, it will cause problems for the two parties. With that, the planners have to look at the small fragments in the document and double-check the resources. If necessary, they can consult the two companies for clarification. Details such as the dates of construction, the timeline for promotional ads, and the utilization of marketing techniques is crucial for the business. When the information is complete and ready, they can proceed to the next step.

Putting it in Paper

Now that everything is accomplished, the last part would be placing the content on paper. In preparing the document, the writers use the content structure above to organize the material. Although MOUs vary according to the preference and design of the company, it has the same form. Before sending the document to the other party, do another check. Get the signature of the business representatives and send the MOU to the potential business partner. In other cases, the two companies can have a meeting for the signing of the document.

In the end, we can all agree that a memorandum of understanding is essential for any company that has dealings with others. What started as simple dinner conversations can lead to wonderful instances of collaboration, but it is documents like a MOU that make it all possible. Know that there is no need to rush anything; if your deals have yet to reach the point where contracts and agreements are necessary, then you already know

what to go for. Take what you've learned and see to it that your plans become reality without any unnecessary troubles.