OUR BOOKS

EVENTS

FAMILY BUSINESS ARTICLES

WEBINARS

Distributed Ownership Tips for Family Businesses

BY DOUG GRAY, PH.D.
APRIL 6, 2021

SHARE:

Many family business leaders describe ownership as a linchpin of their enterprise. Some, fearing family conflict and business indecision, seek ways to limit the distribution of ownership among their heirs. But a focused ownership strategy (e.g. assigning majority control to one heir) can lead to family disputes over fairness or a lack of social capital left in the business. When ownership is clearly defined with mutually acceptable values (e.g. stewardship, service, loyalty, integrity), then distribution is more likely to be successful. But what happens when ownership is not clearly distributed? This article addresses two questions: 1) what is distributed ownership? and 2) how do business-owning families successfully manage distributed ownership?

1. What is distributed ownership?

Answers from my FBCG colleagues ranged from "that good feeling when the family business is in good hands" to "an endless series of scenes like in those Matrix movies." Distributed ownership can be defined descriptively as "when multiple owners have different percentage levels of shares, or types of shares (e.g. voting, non-voting)." Distributions from G1 to G2 are typically from one or two founders to two or more owners, and that complexity increases with each distribution over time. The goal of distributed ownership is to move from now to next, from coexisting to maximizing your competitive advantage. In this article, distributed ownership can be defined as "how you co-design your flourishing family enterprise."

Any functional definition needs to focus on "what works now" and "what may work until the next redistribution." Consider the threats we know now. Amid COVID, globalization, political and social polarization, technological and security threats, decision-making for family business leadership has never been more challenging. However, family business leaders have a resilient history. Flourishing family business leaders have many strategic advantages that can inform ownership discussions. Owners may make values-based decisions over longer terms (versus quarterly returns); owners can quickly access resources; and owners can invest or withhold resources quickly when required. The result is that family-owned businesses may have a competitive advantage over many publicly held companies.[1]

Distributed ownership can be defined as "how you co-design your flourishing family enterprise."

---

2. How do business-owning families successfully manage distributed ownership?

Let's start by discussing four warnings for what NOT to do, then five tips for what to consider doing.

Four Warnings on What NOT to Do:

1) Avoid conflict. Each family system is infinitely complex. When two or more people disagree, then they are in conflict, by definition. How we disagree can be assessed, observed, embraced, and reduced. For example, King Lear foolishly attempted to avoid conflict when distributing ownership to his three daughters, and ended up blinded and alone. He tried to avoid conflict, in vain. The phrases "conflict resolution" or "conflict management" imply a hierarchy and those may be outdated approaches. "Conflict transformation" implies embracing conflict for some higher good (e.g., social justice, resource distribution, stewardship). Researchers know that "constructive conflict" includes both relationship conflict (generally bad for performance) and task conflict (linked to higher creativity and smarter choices).[2] *Please do not avoid your conflicts.*

2) Triangulation. If you should talk to your sister, then you do not need to create a triangle by bringing your mother, or any third party, into the conversation. For sensational examples of what happens when triangulation occurs frequently, watch the HBO television series called "Succession," loosely based on Rupert Murdoch and his family. Use it as a training tool in your next family meeting for what NOT to do. *Please eliminate triangulation from any ownership discussions.*

3) Avoid written guidelines. When organizations mature from verbal to written governance, guidelines can inform stakeholders in different roles (e.g., owners, managers, family, champions, elders, next generational leaders, and the unborn generations). A little structure accelerates governance in meetings and decision making. Many of my clients request templates for weekly meetings (e.g., lightning round to identify priorities, key metrics, set agenda, defer strategic items and ad-hoc items, note decisions made and action items). Other clients develop a simple decision-making guideline such as this example:

- Assess the business need if it is over $50K. (If there is no business need, then there is no discussion.)
- Define the current or available resources to address the need.
- Write and distribute recommendations 24 hours before the ownership meeting.
- Make a decision together with all owners.
- Create a monitoring process for appropriate feedback on implementation of decision/ investment.

The main point: *Please do not avoid writing guidelines when discussing ownership distributions.*

4) Ignore the in-laws. They elected to marry into the family system and often bring candid insights. Consider asking the in-laws what ownership could or should look like. Please respect their confidentiality when compiling data into recommendations. Please include the spouses and partners in family councils or events. Psychologists know that when we actively interact with members of other groups, then we can reduce prejudice and inform both groups. *Please do not ignore your in-laws.*

Five Tips on What to Consider Doing:

1) Adopt timelines. If your family narrative has been written, then you can use that information to describe the eras of Grandpa Bill or Aunt Sally. If you have never written your family narrative, then consider doing so around a conference room table or in a family council committee. Multiple narratives should be encouraged, because they represent different voices from different stakeholders. Once you have narratives of the past, you can develop a series of timelines for the present and future.

The simplest model includes 1) no big change for 10 years, 2) small changes in the next 10 years, and 3) big changes for the next 10 years. If you prefer a shorter time horizon, pick three or five years. Project management teams and strategy consultants use Gantt charts or software (e.g., Microsoft Project, Basecamp). A common future timeline is to consider the possibilities of distributed ownership on 1) people, 2) processes and 3) technology. One of my clients requested a list of "What if?" scenarios. At each family meeting, we selected one "What if?" scenario from an envelope and had a lively conversation.

2) Practice values-based leadership. Family business leaders are uniquely capable of adapting to global pandemics and market threats because they start with core values. If you do not know your core values, you can use assessments (e.g., VIA character, Hogan Personality (MVPI), Personal Interests Attitudes and Values (PIAV), or any list). Assess and define what you think are your core values. Then practice using them when making leadership decisions.

Leaders, by definition, influence the behavior of followers toward a vision of a better future. The core skill of successful leaders is public optimism. For instance, one of my clients determined that their core values included "The Golden Rule, Humility, Integrity, Fairness, Work Ethic." They start each weekly tactical meeting with examples of those values from their employees or clients. They also include their values in performance reviews, career development plans, and all ownership decisions.

3) Practice strengths-based leadership. You may know that organizational psychologists (like me) formerly focused on reducing anxiety and depression, or increasing efficiency. Since 1998, there is a "sea change" in psychology based on extensive research on well-being, engagement, meaning, effectiveness, and flourishing family business leaders.[3] The largest operating cost is always people (some 40-60%) and "human capital" can be designed. I assess strengths at two levels: individual and team. Valid and reliable assessments (e.g., Hogan Personality strengths, derailers and values, or DISC) can be used to describe the current ownership team, and the strengths anticipated in the next ownership team.

One of my clients had a long history of functional organizational charts in silos. When we assessed the strengths of their leadership team, they defined their next organizational network chart that looked more like a spiderweb. Trait theory requires that family business owners develop their strengths, or re-design jobs to minimize their weaknesses. Then owners can leverage strengths-based leadership to flourish.

4) Adopt an emotional lens. Family systems are emotional. Whatever lens you adopt will affect how you see the family system. One of my clients shouted, "I have been a co-founder with my dad since the age of 15. I developed all the website and technology improvements. We made money because of my software, inventory controls, financial payment processes. Now that I'm 30 I expect to be paid as a co-founder." His emotional lens was colored by his misbelief that he was a founder who demanded ownership compensation.

It may be useful for you to adopt an emotional lens to ask empathetic questions like, "How should my sister feel about ownership?"or "What ownership roles would foster good feelings for the next generation?" One of my clients re-distributed ownership so that the three siblings each had both a functional role (e.g., operations, finance, sales) and a different geography. Those three brothers felt that ownership model fostered harmony, some autonomy, and good decision-making.

5) Adopt a multi-level model. Organizational psychologists often use concentric circles or Venn diagrams with overlapping circles to describe multiple levels. The most common model describes 1) individuals, 2) teams, 3) organizations, 4) humanity. Distributed ownership requires a focus on those first two levels: individuals and teams. Typically, I provide individual executive coaching or leadership consulting so that owners assess their strengths and practice new outcomes (e.g., behavior outcomes such as improved relationships and effectiveness, or performance outcomes such as increased productivity or focus).

At the same time, I provide team assessments (e.g., observations, qualitative 360 feedback), meeting facilitation, and recommendations for interventions that may be useful. All organizational change models require a skillful adoption of multi-level models. One of my clients has three siblings with unique strengths (e.g., sales, operations, finance) and they state that our individual sessions supplement our team sessions; they cannot imagine any other approach to organizational leadership.

In Summary

Distributed ownership can be defined as how you co-design your flourishing family enterprise. There are no formulas because family systems are too complex. Thankfully, there are some tips for what NOT to do, and for what to practice doing. I encourage you to share these tips today, so that you can co-design your next version of your distributed ownership. I also invite you to share your stories of success or failure with me at any time. Let's continue this conversation.

References

1. Ward, J. (2004). *Perpetuating the Family Business; 50 Lessons Learned from Long-Lasting Successful Families in Business.* Palgrave Macmillan; New York.

2. Grant, A. (2021). Th*ink Again; The Power of Knowing What You Don't Know*. Viking; New York. (p. 80)

3. Seligman, M.E.P. (2011). *Flourish; A Visionary New Understanding of Happiness and Well-being.* Atria: New York.
