**GRIDLOCK AT BAY GRAY, INC.**

**Critical Incident**

All Bay Gray Inc. (BGI) officers, Martha, Jamie and Rebecca Gray committed to attend a vital board of directors (BOD) meeting to decide the fate of their small family firm (see Table 1). The lone agenda item was to choose one of six alternatives to break an owner’s gridlock regarding sale of BGI (see Table 2). The CEO, Rebecca, arrived early for the meeting and overheard a discussion between her mother, Martha, and her older sister, Jamie; about a family-business issue she could not believe was on-going:

Jamie asked, how can you support my youngest sister, Samantha now when you did not support

me four years ago? Martha responded, I supported both of you but the most important thing

now is to decide how we move forward with the business while we still have valuable assets.

Rebecca was “stressed out” from past conflicts and she stayed out of the recent feud but reflected on the heated mother-daughter exchange next door. The current strife was a continuation of family conflict that impacted the BOD’s ability to break the gridlock about a 2011decision to sell BGI. The strife caused Rebecca to re-examine the eighteen years she had invested in BGI that failed to reduce rising family-business conflict (see Appendix A). In 2010, she felt it was time to leave BGI and get away from growing family feuds in a manner that allowed all owners to be compensated for past efforts. She hired a consultant to find a buyer for BGI and all owners verbally agreed with a buyout deal in 2011; however, her younger sister Samantha, “backed out” of the deal. Rebecca did not want to join this latest family feud at the July 6, 2012 BOD meeting that was similar in her mind to the 2011 agreement she thought was settled and later unraveled. She sat down and attempted to calm down her own emotions in order to select one of six alternatives (see Table 2) that she thought was best for everyone and break the gridlock.

**Company Background**

The founder, Martha Gray, developed a solid business reputation in the court reporting industry and asked her two oldest daughters to take over BGI as equal partners when she retired. Rebecca expected to share leadership with Jamie; instead, she adopted the CEO role with the consent of all owners due to her business experience and MBA. Family disputes spilled over into the business and occasionally Martha was asked to mediate conflicts that involved these decisions. Despite these conflicts, 2008 was the best financial year in history. Revenues declined after 2009 as expected in an economic recession situation (see Appendix A) but BGI maintained even gross margins and operating profitability (EBITDA).

Martha and Rebecca viewed Jamie and Samantha’s on-going behavior as mostly self-serving and rooted in sibling disputes that escalated conflicts. Jamie took a larger role in disputes than Samantha but both sisters felt their work and views were marginalized. Non-family members, Kayla and Gail, showed BGI goal-oriented and self-serving behaviors that others viewed as rooted in their desire to maintain control over work-life balance. By 2010, Jamie left and all remaining staff was involved in the daily operations and reported to Rebecca. However, it was clear Rebecca’s repeated attempts to use shared leadership did not help to reduce family-business conflict and the intermingled use of personal and family resources by Rebecca and Martha were not perceived as clearly BGI goal–oriented by others in the firm. When given small, temporary leadership roles, Kayla performed adequately; yet, she and Gail showed little interest in leadership. Rebecca arranged for all stakeholders to engage in team building sessions and her recollection of leadership and conflict style scores were listed in Table 1 with family relationships and BGI roles.

**Table 1. Year 2012 Stakeholder, BGI and Family Roles and Individual Teamwork Scores**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Name | Martha | Jamie | Rebecca | Samantha | Kayla | Gail |
| Family Relationships | Mother | Oldest Daughter | Middle Daughter | Youngest Daughter | Oldest Friend | Newer Friend |
| BGI Officer Role | Yes | Yes | Yes | No | No | No |
| BGI Stock Ownership | 1% | 35% | 35% | 22% | 7% | NA |
| Final Vote to sell BGI | No/Yes | Yes | Yes | No | No | NA |
| Leadership Style | Task | Passive | Shared | Passive | Participative | Passive |
| Conflict Style | Compromise | Compete | Collaborate | Avoid | Compromise | Accommodate |

**Source: Company Documents and CEO Interviews**

**Key Company Meetings**

**2011 Office Meetings**

In April, Rebecca announced that she wanted to leave BGI and looked for a broker to sell the firm. She and Jamie hired a consulting firm and initiated discussion with them to broker an agreement that would sell BGI to a competitor at a price that compensated them for past efforts and allowed Kayla, Gail and Samantha future employment. Rebecca indicated at a subsequent owner’s meeting:

Shared leadership has not worked at BGI and you guys know that I want to move in a different

direction with my life plus I want to get out of day-to-day managing of the firm. I want to protect

my interests and I plan to be involved in all meetings with the business broker and attorney. I will

need a BOD resolution and $20,000 to fund the search for an M&A solution. Do you guys agree to

move forward to test the market and see what we can get and hope for a merger deal?

Samantha responded, “Sounds OK to me.” Everyone nodded, yes. A buyer was found and all BGI owners agreed in principle to sell with the expectation that details of the deal would be explained later.

**February 27, 2012 Meeting**

An owners meeting was held to review detailed contents of the buyout with Samantha and Kayla. The lowest market value of BGI was estimated at $300k and this would result in roughly$100k cash out each for Jamie and Rebecca because each owned 35% of the stock. They agreed to sell based on market timing, return on their past efforts and % ownership. Samantha with 22 % and Kayla with 7% agreed to sell but were less interested in the immediate payout and more concerned about control. Moreover, they did not want to become employees with little say in the new firm. Martha was a 1% owner and did not want to sell because she thought it would do further harm to family harmony and tarnish her legacy. Yet, she realized the financial deal was reasonable and accepted the majority sell decision. After asking whether they had time to review the buyout details and all agreed, Rebecca stated:

How do you guys feel about moving forward with the sale? If Samantha and Kayla want to

run BGI rather than sell it, Jamie and I will agree to stop the sale as long BGI buys back our

stock for $300k. You guys know that I want to get out of day-to-day managing of BGI and we

are leaving $300k on the table by not taking this offer. If I leave, who is going to run the firm?

Samantha said regarding the new CEO, “It is not personal but I do not want to work for that woman.” Kayla replied, “I do not want the company to be sold.” Samantha added, “I guess Kayla and I will run BGI.” Rebecca reacted, “OK, we need to revise the buy/sell agreement to reflect what we plan to do.”

Delays ensued shaping a new pact and by mid-June Rebecca was reasonably sure Samantha would not sign any new deal. Rebecca changed her communication style, sent out formal notices and held structured meetings as a safer way to handle communications regarding Samantha’s refusal to sign deals. Rather than incur legal fees, Martha, Jamie and Rebecca drafted a letter to all owners with six alternatives that included suing Samantha for breach of contract, various stock purchases, management changes and one alternative similar to the deal Samantha rejected. A board meeting was slated for July 6, 2012 to select the best of six alternatives (see Table 2).

**Table 2. BGI Decision Alternatives 2012**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Alternatives (A) | A #1 | A # 2 | A # 3 | A # 4 | A # 5 | A # 6 |
| Company Action | File suit against Samantha for Breach of Contract | Sell BGI to the Company that made previous offer | Buy terminated stock of Jamie and Rebecca | Replace Rebecca with part-time Finance Mgr. and promote Kayla to VP Operations | Pay cash settlement to Rebecca who retires but retains BGI stock and BOD membership | Purchase all of Rebecca’s stock and she retires |

**Source: Company Documents and CEO Interviews**

**Focus Summary**

After overhearing a few more minutes of discord between her mother and sister when she arrived for the July 6, 2012 BOD meeting, Rebecca’s emotions flared up and she stated, “I have had it.” She did not want to participate in the emotive feud that was underway. Rebecca wanted to break the owner’s buyout decision gridlock and not use legal tactics unless needed. She slumped down in a chair and tried to write out one of the six alternatives that she thought was best for her, other stakeholders and the legacy of BGI. If you were Rebecca, what alternative would you select as best for stakeholders and break the gridlock?

**Appendix A. Major Company Events and Milestones**

|  |  |
| --- | --- |
| 1972 | Martha Gray (MG) founded a small family court reporting firm (BGI) after years of experience in the court reporting industry. |
| 1994 | Martha retired from BGI with 100% of BGI stock and asked her daughters Jamie (JG, oldest) and Rebecca (RG, middle) to be equal managing partners in the LLC. Rebecca began her commitment to a shared leadership strategy at BGI. |
| 1996 | A family friend and former court reporter Kayla Smith (KS) joined BGI office staff. She gained limited leadership experience over time. |
| 1997 | The youngest daughter, Samantha Gray (SG) joined BGI office staff after early years of not wanting to be involved with the family business. |
| 1998 | Martha gifted stock to her two oldest daughters in equal (35%) of shares. Rebecca was officially named CEO of the firm due to her MBA and business experience. Kayla worked more hours and took on temporary leadership roles when Rebecca requested. |
| 2003 | Gail Jones (GJ) joined BGI office staff. Employees worked thirty-two hours/ week for work-life balance and hours were considered full-time. |
| 2005 | KS given (7%) stock for long service and incentive to assume leadership role. SG given (22%) stock for long service and MG retained (1%) stock. JG stopped work as independent court reporter after 21 years and worked part-time in office. Office space was tight and conflicts grew. |
| 2006 | Conflicts grew between sisters. RG hired an OD consultant to develop a transition strategy for her and a BGI succession plan. OD consultant began team building sessions that included gathering and effectively using conflict management and leadership styles. The sessions ended abruptly without reducing sibling strife. The consultant made proposals to reorganize BGI roles for efficiency that stalled. |
| 2008 | Rebecca droped training as future career path and makes decision to move BGI to larger office owned by her. JG lacked leadership skill, grew tired of conflict and decided to leave; reducing the firm size from five to four employees. BGI revenue = $1.8M (peak) and EBITDA % = 28.0. |
| 2009 | Smaller bonuses were given. BGI revenue = $1.5M, Gross Profit % = 37.0 and EBITDA % = 21.0. |
| 2010 | Informal merger talks with competitor stalled. BGI revenue = $1.2M, Gross Profit % = 38.0 and EBITDA % = 24.0. |
| 2011 | RG suggested BGI look for M&A candidates. RG and JG hire consultant to find a buyer. BGI revenue = $1.0M, Gross Profit % = 35.0 and EBITDA % = 22.0. A buyer was found and all owners agreed in principle to the sale of BGI. A later meeting was slated to explain deal details. |
| 2012 | A February owner’s meeting was held to discuss details of the deal. Samantha dragged her feet on signing the deal and finally rejected 2011 deal. Afterwards, the BOD officers crafted six alternatives as the subject for the July 6, 2012 BOD meeting. Estimated BGI revenue = $ .8M. |

**Source: Adapted from Interviews with CEO**