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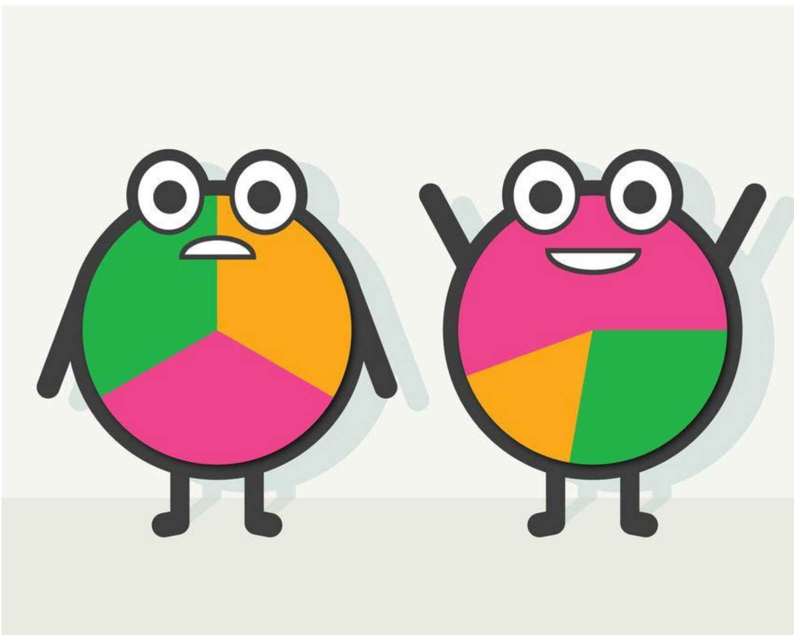
Why Startup Founders Shouldn’t Divide Ownership Equally

A new study suggests that uneven ownership gives the company a greater chance of success



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Company co-founders often split ownership of their startup evenly. It seems fair and simple.

But starting off equal may hurt the company’s chances of getting off the ground.

New research finds that early-stage companies formed with an equal ownership split—such as 50% each for two partners or 25% each for four—were less likely to have measurable revenue or employees one year later, says Dave Noack, an assistant professor of entrepreneurship in the Goddard School of Business and Economics at Weber State University in Ogden, Utah.

How much of a difference did it make? Companies with an unequal split were 21.7% more likely than other firms to be up and running a year later.

"Teams that divide unevenly, with at least one person having founding control, are more likely to launch and reach the marketplace," says Dr. Noack, who also leads the university's entrepreneurship center.

Today, roughly three out of four startups decide to divide the business equally when getting started, he says. The problem, though, is that when shares are split evenly, no one founder feels they have ownership of the company and the responsibility for running it. And that often means that *nobody* takes charge, and the startup stalls. So, an uneven split—even if it is 51% ownership for one of two partners—offers one founder a feeling of individual ownership, and that helps them to push ahead.

"The key takeaway is that there needs to be someone on the team who ultimately takes charge," says Dr. Noack, whose research was published in the Journal of Small Business and Enterprise Development last year.

The researchers used LinkedIn groups to find ventures that were still in the planning stage, 137 in all. They used surveys to understand the psychological ownership of the main founder and whether the venture was able to get off the ground because of this early decision making. (They didn't, however, study what precise equity splits were ideal.)

Dr. Noack hopes the research will result in more purposeful thinking around the ownership split. Companies often want equal ownership to increase harmony and cohesion within an emerging venture but don't account for the drawbacks, he says. "It comes down to decision making and who is ultimately going to feel the pressure on their backs to persevere," he says.

Ms. Dizik is a writer in Chicago. She can be reached at reports@wsj.com.

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