

**Life is interdependent.** Transition to Employee Ownership. Bring work to life.



**Your weekly blog on all things EO**  
with Barry Horner

Episode 17 | Series 1

## **EO Unvarnished - Passing on the Baton and not the Problem - Why a Clear Founder Transition is Our Best Asset**

The second 'EO Know How' in my 'EO Unvarnished' series focuses on the challenges of the founder who simply won't let go.

It was only recently that I was at an excellent EO event where it was clear that a founder was still looking to hang onto control, way beyond what had been clearly agreed.

Transitioning from being founder-led to truly employee-owner led, requires a monumental shift with excellent and clear communication being paramount. It's not just a legal or financial change, but rather it's a psychological one. When a founder agrees to step down, the honeymoon phase of the EOT (Employee Ownership Trust) transaction often gives way to the hard reality of shifting power.

Having a clear, documented plan isn't just about logistics; it's about protecting the stability of the business and the future of its employees. Without it, the employee-owned business will start to flounder.

When a founder won't let go, the new leadership team often suffers from 'shadow

governance', where they won't make big calls because they are constantly checking over their shoulder. This can lead to talent flight. The best successors won't stay in a business where they have responsibility but no authority. A clear transition therefore isn't just for the founder's benefit, but rather it's a recruitment and retention tool for the next generation of leaders.

### **The Timeline: How Long Should It Take?**

There is definitely no 'one size fits all,' but the consensus among EOT experts is that a transition should typically span two to five years.

- **Year 1:** The Shadow Phase. The founder remains in charge but begins narrating their decisions to their successor, explaining the why behind the what.
- **Year 2-3:** The Handover. The successor takes the lead on operations, while the founder shifts into a strategic or mentorship role (often as a Non-Executive Director).
- **Year 4-5:** The 'Elegant Exit.' The founder exits the day-to-day entirely.

**Why this length?** It's long enough to transfer decades of accumulated knowledge and key client relationships, but short enough to prevent the business from feeling stuck in limbo.

Founders often think that stepping down as CEO but staying as a Trustee allows them to keep one hand on the wheel. You need to clarify the distinction. The Trustee's job is to hold the Board (the Directors) to account on behalf of the employee owners. If the founder is both a substantial creditor (waiting for the repayment of the DC) and also a dominant Trustee, this could lead to a conflict of interest. Bringing in a highly knowledgeable Independent Trustee can often be of help here, someone who can act as a buffer and as a neutral mediator.

### **Why is the 'Challenging Conversation' often so difficult?**

Raising the topic of a founder's exit plans can naturally create discomfort or hesitation.

The friction usually stems from two places:

1. **Loss of Identity.** For many founders, the business is their identity. Stepping down can feel like an existential crisis.
2. **Loss of Control.** After years of being the ultimate decision-maker, the letting go

phase can trigger an instinctive (and often subconscious) resistance.

In the context of the Autumn 2025 Budget changes, this has become even more complex. With the tightened rules around EOT tax treatments, specifically ensuring that the trust is genuinely managed for the benefit of employees and not just a 'shell' for the former owner - the stakes for a clean break are higher than ever.

### **What if the Founder Won't Retire?**

It's a situation that can feel uncomfortable for everyone involved.

The papers are signed, the EOT is in place, yet the founder - who has been at the helm for many years - may still feel compelled to stay closely involved or struggle to fully step back.

When this happens, it's important for the Trust and the Board to address the situation thoughtfully and promptly, ensuring the business continues to move forward with clarity and confidence.

- **Refer to the Trust Deed.** A well-drafted EOT should have clear governance structures. The Trustees have a fiduciary duty to act in the best interests of the employee owners. If the founder's presence is harming the business, the Trustees have the power to intervene.
- **The 'Sunset' Clause.** Ideally, your transition plan includes a hard 'sunset date' where certain powers (like veto rights) automatically expire.
- **External Mediation.** Sometimes, a neutral third party is needed to remind the founder that their legacy is best served by a successful, independent business, not one that withers under their continued grasp.

### **What You Can, Can't, and Shouldn't Do**

- **Can the founder stay on as CEO?** Yes, legally.
- **Can the founder retain 51% of the vote?** No.
- **Can the founder control the Trust?** No, they must be in the minority on the Trust Board.
- **Should they stay forever?** Probably not. While it's legal, staying too long often prevents the ownership culture from taking root.
- **How long is 'too long?'** This decision should be taken before the legal transaction

completes. A clear communication plan around these areas reduces friction and possibly damaged relationships. Yes, it can be a challenging conversation, but best to face this head on and be crystal clear on who is doing what and by when.

If a founder struggles to fully step back during the early years of an EOT transition, this can create challenges in meeting the 'all employee benefit' requirement that applies in the first four years. During this period, HMRC retains the ability to withdraw CGT relief if the EOT rules are not genuinely being met.

Where a founder continues to play a dominant decision-making role, HMRC may take the view that the Control Requirement was not fully satisfied or has been unintentionally breached, which could have financial implications for both the founder and the business.

Following the Autumn 2025 Budget, changes to CGT relief - including the reduction from 100% to 50% - mean that many founders will now face a level of tax liability that did not previously apply. In practice, this may result in an effective tax rate of around 12%, which represents a noticeable shift from earlier outcomes.

It's understandable that these changes might encourage some founders to remain closely connected to the business during the early years of the transition, particularly as they balance deferred consideration with upcoming tax obligations. This can also introduce natural psychological pressures, as founders seek reassurance that the business is on a stable footing during this period.

## **Conclusion**

Ultimately, the culture and spirit of an employee-owned business thrives best when a founder feels supported in gradually stepping back from the responsibilities they once carried. This shift often involves personal reflection, space for future or current leadership to grow, and a shared commitment to trust the next generation as they take the business forward - learning, shaping, and strengthening the culture as they do.

In 2026, a transition that doesn't quite land as intended can do more than slow progress - it can also place the tax integrity of the arrangement at risk for both the founder and the business. Many of the most successful transitions tend to follow a clear twotofiveyear journey, gradually moving from the early 'Shadow Phase' into what becomes a genuinely 'Elegant Exit'.

In today's more regulated, higher tax environment, the unvarnished truth is this: a founder's legacy is not defined by how long they stayed in charge, but by how well the business thrives in their absence. Have the hard conversations early, set the sunset date, and pass on a baton that genuinely represents the future.

For more information or to discuss anything in this latest Know-How;

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