EO Know how

Your weekly blog on all things EO
with Barry Horner

Episode 22 | Series 1

The Three-Legged Stool of EO. Moving from Transaction to Transformation

When business owners start looking into Employee Ownership (EO), the initial focus is almost always on the structural mechanics. They tend to look at the legal framework, the valuation, the Employee Ownership Trust (EOT) deed, and the tax efficiencies.

In my experience of working with founders and leadership teams, moving to EO happens across three distinct stages:

- **The Transaction.** The technical deal itself, which includes the signing of the documents, the setting up of a Trust and arranging the independent valuation.
- **The Transition.** The operational shift, includes the handing over of key responsibilities, setting up new governance, and learning how to communicate in a new way.
- **The Transformation.** The true prize, where employee ownership becomes a living, breathing culture that can support sustainable long-term success, employee engagement, and the creation of shared value.

Getting across the line on the Transaction is relatively straightforward. Navigating the Transition takes deliberate effort. But reaching true Transformation starts with understanding one core concept, and that's keeping the three-legged stool in perfect balance.

The three legs represent the key stakeholders in every business:

1. The Founder
2. The Leadership Team
3. The Employees

If all three legs are strong and aligned, the stool supports a thriving, resilient company for generations. But if even one leg wobbles, the entire journey to transformation grinds to a halt.

Leg 1: The Founder Who Simply Won't Let Go

The Symptom: The ink is dry on the trust deed, the press release has been published, and the launch celebrations have started. Yet on Monday morning, the founder is back at their desk micro-managing operations, overriding management decisions, and keeping a firm grip on the steering wheel. This is a disaster.

Why it breaks the stool: EO is not just a tax-efficient succession strategy, but rather it is a fundamental shift in authority. When a founder struggles to step back, they risk becoming an anchor to the past rather than a launchpad for the future. Remaining stuck in the driver's seat serves no one. It confuses employees, disempowers the incoming leadership team, and deprives the founder of the clean, fulfilling exit they planned for.

By the time the transaction is signed, the founder needs to be emotionally and operationally ready to hand over the reins completely and become the biggest champion of the new leadership team. This is often one of the most important factors in supporting a successful EO transition.

How to balance it (From my personal experience):

- **Engage an external coach -** Letting go of a business you built from scratch is a deeply emotional process. An external coach provides a safe space to process the loss of identity, navigate the emotion of stepping back, and design a purposeful "life after EO."

- **Promote, don't shadow, the new leaders -** The founder's primary role on completion day is to publicly throw their full support behind the incoming leadership, signalling to both the team and clients that the future belongs to them.
- **Define clear governance boundaries -** Establish explicit lines before completion between board oversight, trust board governance, and day-to-day operational management.
- **Serve in the capacity of 'confidential sounding board' -** Philippa (new CEO) and I (now in the capacity of Board Chair) meet weekly as it is typically only the former CEO who truly understands the specific pressures, key stakeholder nuances, and historical context of that exact company. A private, confidential space allows the new CEO to say, "I'm struggling with X" or "I'm not sure how to handle this trustee dynamic" without showing vulnerability to their direct reports or the wider workforce.

Crucially, a key part of 'readiness' and a preparedness to 'let go', must extend to the founder's own personal financial landscape. Mapping out whether deferred consideration (DC) payments will genuinely allow a vendor to step back with total confidence is a vital step before completing the deal.

A founder needs full clarity that even if trading conditions soften and DC repayments slow down, their individual financial security remains intact. Without this financial comfort and without a robust, stress-tested "Plan B" for deferred consideration, anxiety may lead the founder to step back into day-to-day management in an effort to protect their income.

Leg 2: The Leadership Team Unaware of What's Landing in Their Laps

The symptom: The founder signs the papers, steps aside, and expects the existing management team to step seamlessly into executive leadership. Meanwhile, the leadership team feels overwhelmed, underprepared, and unclear on how to manage in an employee-owned environment.

Why it breaks the stool: Being a functional department head is very different from leading an employee-owned business. True transformation requires commercial openness, two-way communication, and high empathy alongside operational discipline. If the leadership team hasn't been prepared during the transition period for this expanded mandate, they often default to old command-and-control habits or freeze under the weight of new expectations.

How to balance it:

- **Bring the new leadership along early -** Preparation for the executive team should begin at least 24 to 36 months before completion, building their confidence long before the transaction closes.
- **Invest in EO leadership development -** Equip your leaders with the practical tools needed to lead transparently, handle open-book management, and foster genuine accountability. Implement a coaching regime across the entire business, as Philippa has done in Paradigm Norton.

Leg 3: Employees Who Say, "We Didn't Ask for This"

The symptom: The founder proudly announces the transaction as a "gift" to the workforce, expecting instant celebration. Instead, they are met with crossed arms, scepticism, and queries like: "We didn't ask for this," or "Does this mean I'm personally liable if we have a bad month?"

Why it breaks the stool: When EO is announced as a finished deal without prior engagement, human nature kicks in. People naturally resist what they don't understand. If your team suspect EO is simply a tax manoeuvre for the founder or an excuse to demand more work without clarity, cynicism takes root immediately, extinguishing any possibility of cultural transformation.

How to balance it:

- **Demystify "Ownership" -** Be crystal clear from day one about what EO means and what it doesn't mean. It means having a voice, sharing in commercial success, and building a great workplace. It does not mean every employee gets a vote on day-to-day operational decisions, nor does it mean that the beneficial owners have taken on some personal liability or fiduciary responsibilities!
- **Co-create the EO story -** Involve employee representatives early through working groups or champion networks to shape how the transition is communicated across the company.

From Deal to Culture

A well-executed EOT transaction gets the deal done. A structured transition transfers responsibility. But transformation, the real purpose behind choosing employee ownership only happens when the founder, the leadership team, and the employees are all supported, prepared, and aligned.

If you are planning your own EO journey or reviewing where you are post-completion, take an honest look at your three-legged stool.

- Is the founder emotionally prepared and coached to step back and empower others?
- Is the leadership team trained and supported to step up into their new roles?
- Are the employees engaged, informed, and actively brought along on the journey?

When all three legs are balanced from the start, organisations are often better placed to move beyond completing a transaction and towards building a resilient and sustainable employee-owned business.

If you would like guidance in carefully balancing all aspects of the three-legged stool, we can introduce you to a network of professionals who are experts in these areas. Drop me a note on bhorner@pnfp.co.uk for more information.

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