



THE ROAD TO SUCCESSION

EXPLORING LEADERSHIP SUCCESSION
IN EMPLOYEE-OWNED BUSINESSES

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TELOS





FOREWORD

Employee owned businesses are a unique breed, driven by vision, resilience, and a commitment to shared prosperity. As of 2023, just over 1,400 UK businesses have adopted employee ownership. These pioneers have embraced a model that truly rewards hard work, quietly catalysing a reimagining of our future economy.

The decision to transition to employee ownership requires the founder to balance personal legacy and values with the potential financial aspects of a possible trade sale. The journey of leadership succession in an employee owned business is filled with unique advantages, opportunities and challenges. This report seeks to shed light on what works, what doesn't, and what commonalities lead to successful transitions.

To gather valuable insights, our partners at Telos and JGadd Associates conducted separate interviews with founders and successors from 25 employee owned businesses, all proud members of the Employee Ownership Association (EOA). From these conversations, we identified key themes and recommendations that will provide invaluable guidance to those planning or undergoing leadership succession.

Throughout this report, we have included top tips from experienced hands – insights and advice

gathered from those who have navigated the intricacies of leadership succession in employee owned businesses. We hope that these tips will be invaluable for those considering or undergoing the transition.

Whether you are a founder, successor, employee owner, customer, or supplier to an employee owned business, this report will help you address the questions and uncertainties that arise during this critical journey. At the EOA, we celebrate the uniqueness of each employee owned business and recognise that there is no one-size-fits-all approach to leadership succession. I encourage you to embrace the diversity of experiences and perspectives, and use this report as a guiding light to shape the future of your employee owned business.

I extend my sincere gratitude to all those who have contributed to this report, from the founders and successors who generously shared their insights, to the team of dedicated individuals who made this endeavour possible. May this report be a source of inspiration, knowledge, and practical guidance as we continue down **"The Road to Succession."**

James de le Vingne

CEO, Employee Ownership Association



INTRODUCTION

“tis our fast intent, to shake all cares and business from our age, conferring them on younger strengths, while we, unburden’d, crawl toward death.”

King Lear, Act 1, Scene 1

“You’re my boy, you’re my number one boy”

Logan Roy, Succession, Series 1 Finale

“You’re building something to be proud of, for everyone – that’s the legacy.”

“Start early, you can’t start too soon, years ahead. Plan A might not work out – looking at various options, broadened the network of people, if you have to move to Plan B then that work pays off.”

Participant in the enquiry

Whether through the enduring appeal of Shakespeare, or via the modern perspective of Sky, the necessity for and challenge of succession has long been written about. But what of its relevance to employee-owned businesses?

Of the 5.5 million business in the UK, only 250,000 of them have 10 or more employees and, to date, only 1,400 of those have transitioned to employee-ownership. People who start, grow and transition their business through employee-ownership are a unique (but growing) breed. The vision, drive, relationships and resilience (along with an occasional and obligatory dose of good luck) required to survive and thrive through the years means that there is, not just a lot of blood, sweat and tears but also, a part of the founder’s soul in the business.



Like most things, with strength also comes weakness. Letting go and passing on something that has been your 'life's work' is not easy. With the likelihood of trade sale realising a higher 'ticket price' for the founder, the decision to sell the business to the employees is not one taken lightly. Often driven by values, leadership succession through employee-ownership comes with some advantages and some challenges. What works? What doesn't? What common things apply to a successful transition of, not just ownership but, leadership? How is this different in an EO Business? What does it look and feel like through the eyes of the Founder? And the Successor?

It was with these questions in mind, that we shaped and began our enquiry, separately interviewing the Founder and Successor of 25 Employee-Owned Business (all members of the Employee Ownership Association). These interviews revealed the following key themes:

- 01 **Theme # 1** – Successful succession comes at the end of a long road;
- 02 **Theme # 2** – The first succession is (potentially) the hardest;
- 03 **Theme # 3** – Balancing Good EO with Good Business is key;

And, some useful and helpful 'top tips' from experienced hands.

This article attempts to summarise and bring these themes to life, illustrating them with the anonymised quotes of the participants. We have written it for Founders and Successors who are planning to go through, or who are going through, leadership succession in an employee-owned business. **And, had in mind the following people, who may be asking the following questions:**





FOUNDER	SUCCESSOR
<ul style="list-style-type: none">● How will this help me secure the legacy of years of hard work?● Will I be able to find the right person/people in the time I have left to take on the leadership of the business? And, how will I know who is right for the role?● What does it all mean for me and my role? What will I do now? Will the business still need me?	<ul style="list-style-type: none">● How can I leverage the experience, knowledge and relationships of the Founder whilst making my own mark as a leader?● How can I manage change without 'calling the baby ugly', whilst being sensitive to the wants and needs of new owners, and ensuring we pay off the transaction?● How do I balance my time on the cultural and organisational change along with what the business needs to survive and thrive?● What are the key things to get right? What support do I need? And where can I find it?
EMPLOYEE OWNERS	<ul style="list-style-type: none">● What do you mean, we are now the owners? How will things change around here and what will stay the same? What will the business be like without our Founder being around?
CUSTOMERS / SUPPLIERS	<ul style="list-style-type: none">● We've enjoyed a long-standing relationship with the Founder, how will this change our relationship with the business?
THE BUSINESS ITSELF	<ul style="list-style-type: none">● Will the new owners and leader love me in the same way? And, given the new financial obligations, will they continue to invest in my future?

Before we share the key insights and lessons learned some (more!) interesting facts, from the 25 businesses interviewed, that we believe provide useful context:

- On average the succession process took 6.5 years (ranging from 2 years to 8 years)
- 12 had successors who had been promoted internally
- 7 had shared that they had experienced at least one false start or poor recruitment.

We hope that you find the article interesting, insightful and (more importantly) of practical use.

01

THEME # 1 – SUCCESSFUL SUCCESSION COMES AT THE END OF A LONG ROAD

The experience of transitioning to employee ownership and leadership succession at the same time comes with unique elements in every organisation. It is clear from these interviews, and prior observations, that succession (especially in an employee-owned business) is a process that takes place over time, rather than a specific single event. It is often likened to the baton change in a relay race, with the transition to Employee-Ownership the final leg of the Founder's race.

Understanding and clarifying what the baton represents for the Founder is key. In the case of EO, this is mostly centred on the passing of ownership, leadership, the entrepreneurial development of the business and personal legacy, as illustrated by the quotes below from Founders on their reasoning for choosing EO. Capturing, writing down and passing on these 'founding principles and values' appears to be a key part of the 'letting go process'.



“Every moment I have realised I need to do less and less in the business has been a positive to me.” - Founder

There will, of course, be many important baton changes earlier on in the journey. A series of activities of the Founder stepping up and letting go, e.g. passing on the administration of the business; bringing in financial management and control; building sales capability and capacity; and, for some, perhaps an MD. But it is this, the final baton pass, that is often the most challenging and emotionally complex.

“We were seeking to develop a great place to work”

“EO is a big rubber stamp for the kind of company that you are”.

“EO has a huge impact on staff retention, especially when they start to live and breathe what EO is, more than just the financials – employee voice and culture”





The passing on of the baton appears to be so much easier if time has been taken to get a strong team in place and increasingly giving them opportunities to step up and lead.

“It’s all down to the people, we’ve found the right person to take us forward”.

“Confident that the team we had could take the business forward without me.”

“Help people to step up in their roles, backfilling, exposing them to other sources of information, and stepping out of things to let others step up.”



And, why did we have customers and suppliers in our mind, as we wrote this article? Simple.

Given the path taken to start, survive and grow the business the Founder is often integral to many of the relationships. Ensuring these relationships are nurtured and strengthened during the transition of leadership will be key.

“We have not told some of our suppliers yet about my intention to leave, unfortunately I am quite integral to these relationships currently. We will have to tread this path carefully over the next couple of years.”



Perhaps it is for these reasons that a significant number of first successors, in the businesses that we interviewed, are internal?

02

THEME # 2 – THE FIRST SUCCESSION IS (LIKELY) THE HARDEST

Given their unique talents, a Founder can be a hard act to follow. Taking on the baton might feel akin to a child taking part in the primary school concert about to step on stage after the 9-year-old prodigy, picked to go on Britain's Got Talent, has just finished their set – follow that! And, given that the transition to employee-ownership means that the Founder may well still be around for a period of time, there may be added complication.

“It is pretty hard taking over a founder, they’ve built a lot of history in the business, making sure the founders understand that problem and don’t revel in being the hero.”

“Nobody likes a backseat driver.”



Beyond this 'tough act to follow', the new leader has now to lead a group of expectant, sometimes confused, employee-owners, establish their position within the leadership team (in many cases, these will have been peers) and, oversee a structural and cultural transition of the business.

“The EOT piece was quite new to them, it felt like an exciting opportunity – challenge was understanding the impact it would have on their business and what it would mean for how they would behave – running the business in a profitable way whilst also allowing them to have an input – still need to have a leadership structure and a hierarchy in order to make the right decisions for the business.”



“EO is not always sweetness and light – if you’re not careful it can become employee entitlement very quickly.”

“You have to continuously repeat the message that it’s going to be okay and we’re on the transition together.”



In addition, there is a business to run, one with a (hopefully sensible) financial burden to settle following the transaction. Great, thanks!

“Don’t be too greedy in looking for money, you’ve got to leave a lump of money in the company to keep it going.”



A unique set of circumstances for the Successor to take on. But take heart, there is a reason that different leadership is required now, and it is in the Founder's and the Employee-Owner's emotional and financial interest for the new leader to be successful.





“It’s a different energy required between someone who wants to get a business of the ground vs. someone who wants to take it further.”

“You’re allowed to be good at different things than the founder.”

“The enjoyable part is seeing people better than you coming in, much better technically qualified, doing tasks that you did much less well. It’s very rewarding to see that.”

“The person that replaces me, I want them better than me – do more, make it greater, and with my blessing.”

So, not only are Founders unique, the first Successor will require some special qualities themselves.

“Recruit in-line with your values, buy in. In some ways comes ahead of technical competence.”

“Anyone who follows needs to understand the strong culture, understanding of what they are trying to achieve and how they will achieve it.”



“Preference for someone to come up internally does depend on what is right for the business at the time, you need to know whether or not people are up for it.”

“Leadership is a bit like cheffing, the best chefs use recipes but aren’t ruled by them – let your personality come through, be that leader, learn how to lead, put your effort into being inspirational and be visible.”

“Invest in someone dedicated to EO and understanding what you are trying to achieve.”



When it comes to the second succession, the culture will be in place, the financial burden relieved (perhaps) and the Founder (likely) will no longer be around. So that succession will be easy. Right?

“Succession should always be on your mind, it’s never too early to start thinking about it – we are already talking about it even though we aren’t thinking about going anywhere.”



Better to start planning for it now.

THEME 3# – BALANCING GOOD BUSINESS WITH GOOD EO IS KEY

In many ways the essence of Good EO, giving people a stake and a say, is simply Good Business – the added benefit being that the focus on creating a Good Business benefits the employees, not just lines the pockets of external shareholders. Whilst the period of this first leadership succession will inevitably have a focus on embedding Good EO, it must not lose sight of Good Business.



“Our first strategy was one to pay off the debt, only now do we have one for the business itself”

“We probably put too much emphasis on ‘this is your business’, in hindsight this should have been on ‘responsible owners’ putting the business first”

The collective goal of new leadership and new ownership needs to be Good Business. A business that is striving to achieve an optimal performance where:

- customers love the products and services offered; these are delivered in consistently reliable, timely and high quality way;
- the processes, infrastructure and working practices support these high quality outcomes;
- the relationships with and service from partners and suppliers are exceptional;
- the culture attracts and retains talent and gives people meaningful work; and,
- the business plays a positive role in its community and for the planet.



“We were seeking to develop a great place to work, what did that mean in practice?”

“The value of the business is in the people and the ability to keep trading”

“Business is easy, you need to focus on people because people are hard – if you focus on people the business gets easier.”

Is the search for optimal an impossible goal? Perhaps less so if it becomes a collective endeavour. Creating a Good Business is a worthy focus for the Founder, the Successor and the Employee-Owners – that is Good EO.





TOP TIPS FROM EXPERIENCED HANDS

Pulling together the thinking we asked interviewees the question 'Based upon your experience, what one tip would you give to those considering or going through Leadership Succession in a transitioning EO Business?'. Here's what they said:

BEGIN EARLY AND SET A SENSIBLE AND APPROPRIATE TIMELINE

"Start early, you can't start too soon, years ahead. Plan A might not work out – looking at various options, broadened the network of people, if you have to move to Plan B then that work pays off."

"It's all about planning ahead, looking at the people below you, they will often be doers or completers and you still need leadership – sometimes there's a big gap between founders and action oriented people."

"Be as realistic as possible that embedding EO may take between 3-5 years."

PREPARE AND READY THE LEADERSHIP TEAM

"Help people to step up in their roles, backfilling, exposing them to other sources of information, and stepping out of things to let others step up."

"It's really important for the founders to be at least one step removed from the core operational processes of the business."

"One way to make people feel a deeper sense of ownership is to give them more governance, actively involves them more in the business not just a 'role'"

CLEARLY DEFINE ROLES, ESPECIALLY WHAT VALUE THE FOUNDER CAN STILL BRING TO THE BUSINESS

"If you're going to hang onto a part of your business that doesn't allow it to move forward."





"It's not until the founders leave that you get a change in behaviours".

"You need your team to commit to the decision about the culture and values too."

START AS YOU MEAN TO GO ON:

"EO should be seen as an entry strategy rather than an exit strategy"

"The quality of the deal is represented in the residual relationship with the owners."

"The EOT piece was quite new to them, it felt like an exciting opportunity – challenge was understanding the impact it would have on their business and what it would mean for how they would behave – running the business in a profitable way whilst also allowing them to have an input – still need to have a leadership structure and a hierarchy in order to make the right decisions for the business."

"Manage your messaging when you launch your EOT – probably didn't get that quite right, big event and made this huge announcement – felt like people would be really excited about it but there was a lot of cynical voices around how this works."

"There's merit in having a deeper dive on business, having a framework to at least hang something on".

DON'T BE AFRAID TO ASK FOR HELP AND SUPPORT

"It is a deeply emotional journey for owners /founders so it's important to have that support in place for them."

"Having two different sets of advisors was very beneficial".

"The Knowledge base on the EOA website is a brilliant hub of resource"

"EOA Conference is so valuable."

"Trustee training is fantastic."

START THINKING ABOUT THE NEXT SUCCESSION, NOW!

"Looking about 3-5 years ahead at all times"

"Build talent around you so that there's opportunity"



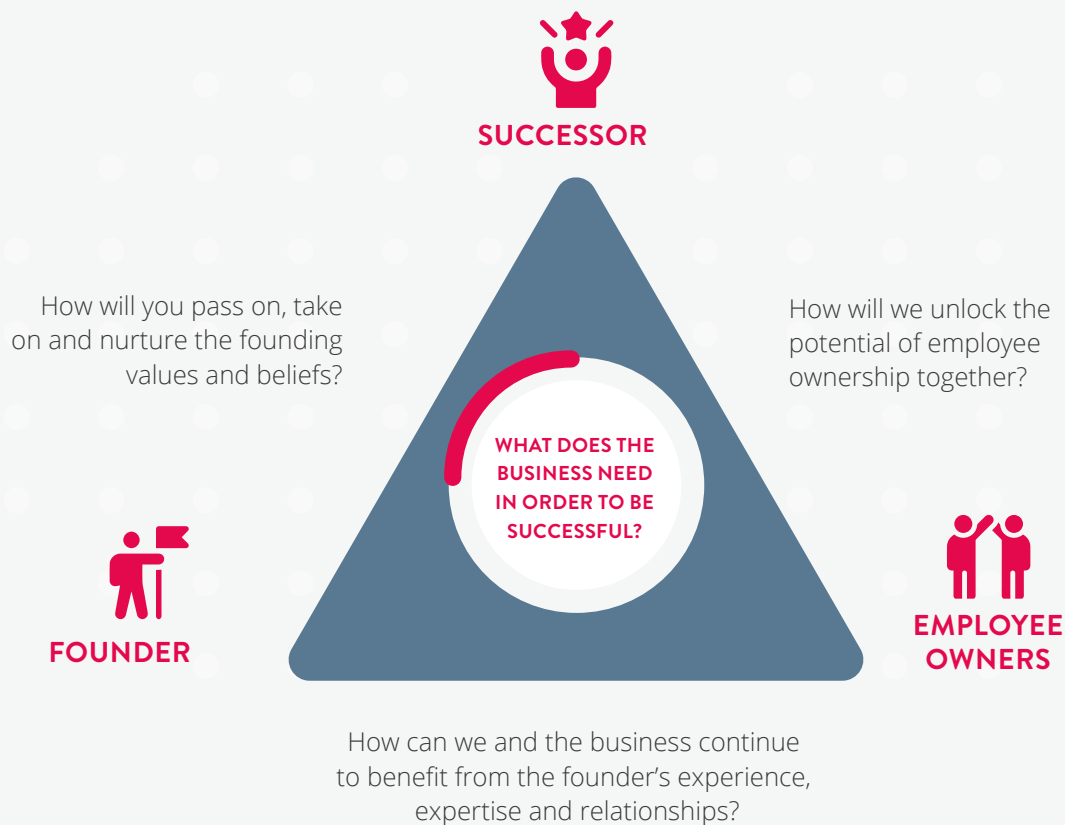
CONCLUSION

“If you have met one employee-owned business, you have met one employee-owned business”

The quote across, perhaps one of our favourites, again highlights the uniqueness of founder succession within an employee-owned business.

Each with its own different set of circumstances. Each with its own opportunities. Each with its own challenges. Yet, amongst this uniqueness some common themes and, perhaps, some key questions that may provide a useful focus as you transition not just ownership, but leadership.

The answers to these questions, will have to, uniquely, be yours. After all, is that not the true definition of ownership?





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