

When It's Time for Your Co-Founder to Go

Article By:

Harvey Koning

Every start-up begins with high hopes. You and your co-founders are “all in,” fully committed to the success of your company. You have big ambitions and everyone is bringing something to the table.

But time brings changes. Maybe your co-founder flakes out and simply does not devote the time. Maybe your co-founder does not have the skills to manage people in an increasingly complex business. Maybe your co-founder simply does not successfully complete the tasks she is responsible for. Maybe he is unwilling to let go of his full-time paying day job. Maybe your investor is pushing you to scale the business in a way your co-founder simply cannot cope with. Now you and the rest of the team are carrying him. Now you must weigh the needs of the business against your friendship and loyalty to your co-founder.

Nobody prepared you for how hard it is to have a tough discussion with your co-founder. But that is the place to start. Before any decisions are made, have a direct honest conversation with your co-founder. Here are some tips for making that conversation as effective as possible:

- First get some objective input from someone who knows the situation.
- Have the conversation sooner rather than later.
- Prepare yourself to have the conversation – this is going to be tense.
- Do not have the conversation in the heat of the moment when you are angry.
- Name the problem(s) and have specific examples ready to illustrate what you are talking about.
- Listen for a willingness to learn and improve (a positive sign) and consider excuses a red flag.
- If there is to be an opportunity for change, set a short time limit and objective criteria.
- Prepare yourself for the possibility that your co-founder will see the situation very differently, consider himself the victim in all this, and will respond with hostility.

But suppose none of that works. Then remember the old German saying “Better an end with pain than pain without end.” Meaning act now, right away, to get this resolved. It will not be any better three months from now. Better to take decisive action now before investors or potential investors make you take action later.

If the decision is made that the co-founder has to go, you need to:

- Check all the legal documents – is the co-founder’s equity subject to vesting? Does the co-founder have the right to get bought out? Who makes the decision?
- Make sure your board of directors, other co-founders and/or investors are on the same page and ready to take action.
- Look for a graceful exit for the person being fired – can you buy out their equity perhaps with some additional severance to ease the transition?
- Have your lawyer prepare a departure agreement spelling out all the terms in writing. If at all possible, include a “release of claims” where both sides release whatever claims they have against the other.

Maybe you are not in this situation (yet). But the best time to prepare is well before you get to a crisis point. You will put yourself in the best position if you make smart decisions before your co-founder is floundering. Here are specific steps you can take to set yourself up for success.

Vesting. Founders often have a knee-jerk hatred of vesting. It’s our company, why should any of our shares be at risk? The reason is that if someone is not pulling their weight and contributing, vesting gives you a way to get that equity back. Otherwise someone who used to be your head of marketing will end up with X% of your company, detracting from the ownership of the other founders and the investors. Be careful to educate yourself about the tax nuances including the “83(b) election.”

Clear Expectations. Be clear on the front end about what each person on the team is expected to accomplish. The more specific the expectations, the clearer it is who is and is not meeting those expectations.

Clear Authority. Your legal documents should give either the board or a majority of the co-founders the right to oust a co-founder while retaining the right to purchase back any vested equity held by that co-founder. Without clear lines of authority it can get complicated to know who really has the authority to terminate the relationship with a co-founder.

We all want the whole team to succeed together. And sometimes it does. But you will be much better off if you are prepared for the possibility that things do not work out with a co-founder. And if you get to the point of having tough conversations and making tough decisions, think it through, line up your support, check with your lawyer and act decisively.

© 2025 Varnum LLP

National Law Review, Volume V, Number 251

Source URL: <https://natlawreview.com/article/when-it-s-time-your-co-founder-to-go>
