



AIJA

www.aija.org

2017 Half-Year Conference
Riga, 17-20 May 2017

Management and employee incentive programs for start-ups

Friday, 19 May 2017 – Riga, Latvia

Esther Goldschmidt, Altius (Belgium)

Constant van Tuyll van Serooskerken, VanDorner (the Netherlands)

Ernesta Žiogienė, Primus (Lithuania)



INTERNATIONAL ASSOCIATION
OF YOUNG LAWYERS

Incentive programs for start-ups

General overview



General overview: relevant characteristics of start ups



- Innovative product/business (importance of IP and knowledge/skill of individuals)
- Limited resources (<-> need to attract qualified individuals)
- Staged funding (reluctancy towards equity investments)
- Newly emerged company (limited financial information, difficulty of projecting future financial results, cash flow and liquidity of investment, high potential for growth)

General overview: challenges

- Attracting and retaining highly skilled personnel
- Limit cash out
- Avoid bad incentives of preformulated bonus targets
- Retain buyer attractiveness

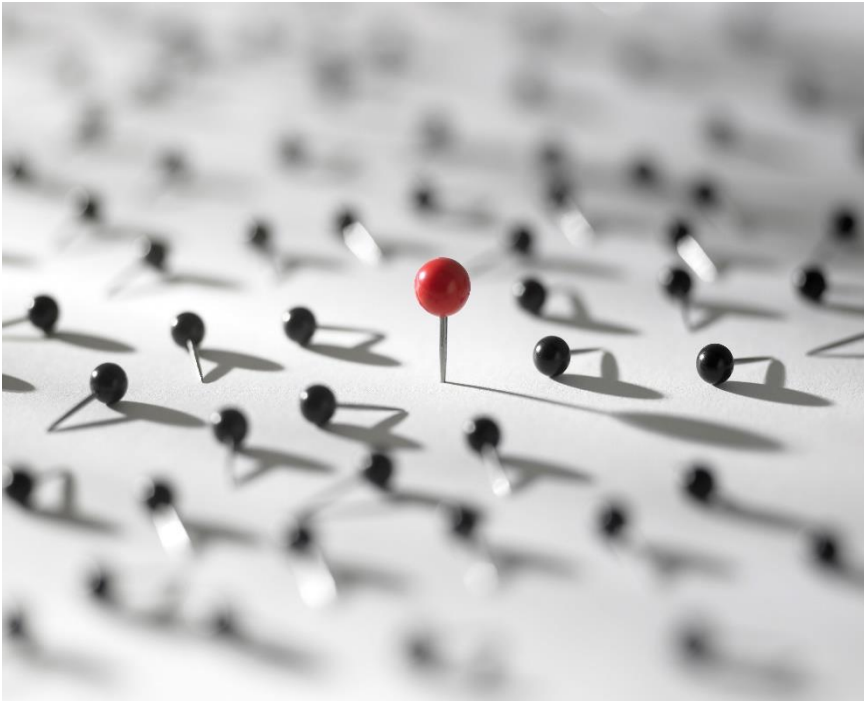


General overview: possibilities

- Equity stake + adequate provisions in shareholders agreement
- Cash bonus
- Stock options / subscription rights
- Phantom stock
- Non-monetary incentives



General overview: complexity of choice



Company vs. employee - to ensure effective incentivisation of employees:

- valuation problems
- possible tax and social security issues
- share liquidity and leaver clauses

Differentiate between (key) founders and other key employees



INTERNATIONAL ASSOCIATION
OF YOUNG LAWYERS

Incentive programs for start-ups: Generic issues

Generic issues: leaver clauses



- Good leaver/bad leaver.
- Fraud etc. are clear-cut. What about long-term illness or difference of opinion?
Additional intermediate leaver option?
- Valuation & leaver. Redemption once each year/internal market?



INTERNATIONAL ASSOCIATION
OF YOUNG LAWYERS

Alternatives: Non-monetary incentives

Non-monetary incentives: mystery of motivation

positive work environment?
money?
responsibility?
recognition?
personal growth?
challenging work?
experience?

Motivation Factors:

Frequent and meaningful rewards



Attention from company leadership



Public recognition among peers



Non-monetary incentives: what motivates best at early stage of start up?



The incentives that are...

- Non-cash
- Tangible
- Specific

Non-monetary incentives: non-cash factors

- Positive work environment
- Experience
- Recognition and award
- Flexible schedules and the option for remote work
- Company trips
- Sports
- ...



Non-monetary incentives: cool work perks*



What motivates when a start-up becomes big?



Equity is a king!

What **really REALLY really** motivates the team of start-up?



Combination of factors
and incentives!

Country specific: Belgium

- Self-employed managers
- Phantom stock / tax treatment
- « preferential » treatment of stock options/warrants -> taxation at the time of granting of stock options



Country specific: Netherlands

- Captive FinTech companies set up by large banks /insurers
- Private equity like structures with high IRR for employees (debt/equity ratio) and leverage potential
- Driver: strict bonus cap rules (20% fixed pay) for financial companies!



Country specific: Lithuania

- Start-ups boom
- Soft factors strongly affects motivation for young start-upers
- Favorable option programs from social tax perspective



Thank you !



Esther Goldschmidt
Altius (Belgium)

Esther.Goldschmidt@altius.com



**Constant van Tuyll van
Serooskerken**
VanDoorne
(the Netherlands)

TuyllC@vandoorne.com



Ernesta Ziogiene
Primus (Lithuania)

Ernesta.Ziogiene@primus.legal