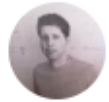




A Comparative Analysis of Startup Equity-Based Compensation: Does Law Matter?

Yifat Aran & Casimiro A. Nigro

← Tweet



Sam Altman 

@sama



giving equity to employees is perhaps the key element to making startups work.

it's amazing to me that some countries make this so hard (sometimes totally economically impractical) and then wonder why they don't have more successful startups.

5:45 PM · Feb 14, 2023 · **2.1M** Views

Motivation

- The use of stock options in VC-backed companies is less common outside the USA (Hege et al., 2003; Kaplan et al., 2007).
- Lack of consensus on the reasons behind this disparity.
- Proposed factors include limited sophistication of EU VCs and founders, as well as unfavorable tax treatment:
 - Kaplan et al. (2007) bring evidence for lack of sophistication.
 - Henrekson and Sanandaji (2018) reveal negative correlation between the effective tax rate on employee stock options and the extent of VC activity.
- However, limitations include a high-level examination of legal issues, no cap table data, and a small sample size.

Stock Option 'Friendliness' Scale

Country ranking based on stock option policy

Effective stock option policy
makes it easier for startups
to attract and retain talent

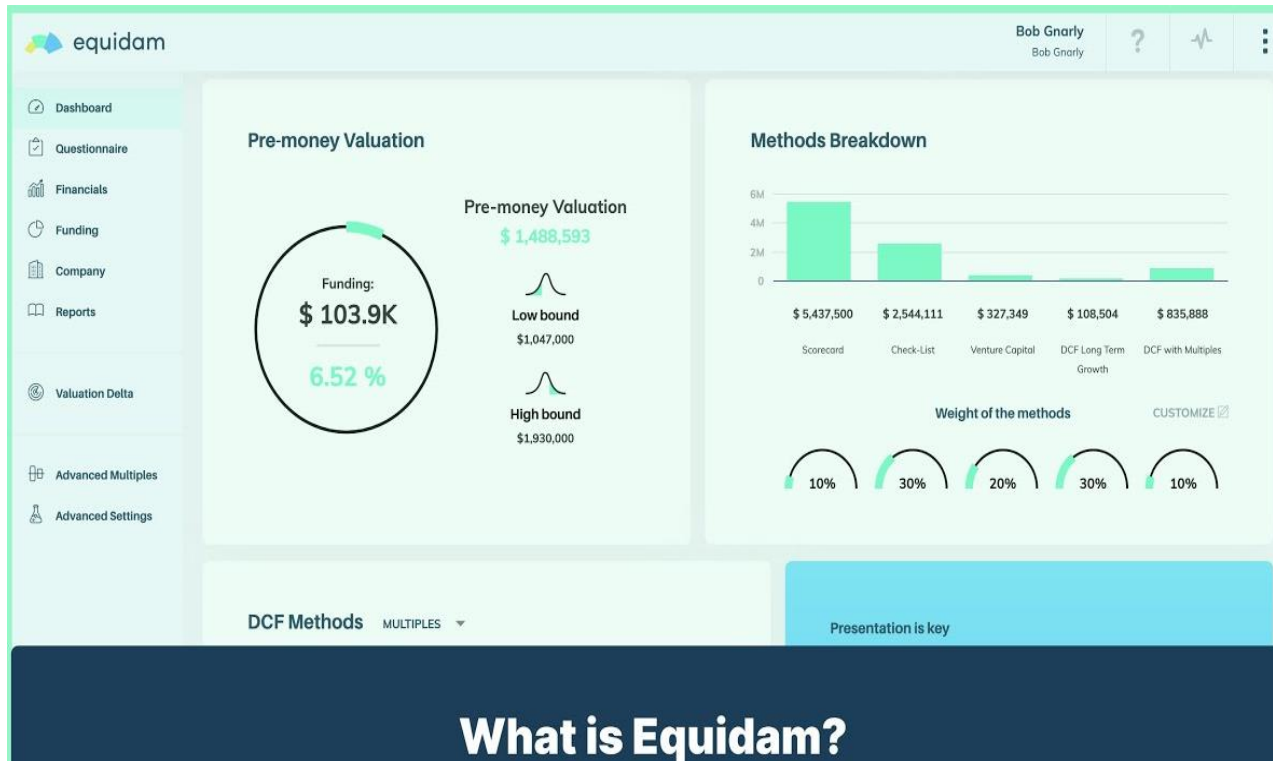


| Ranking | Country | Score (out of 30) |
|---------|-----------------------------------|-------------------|
| 1 | Estonia 🇪🇪 Latvia 🇱🇻 Lithuania 🇱🇹 | 30 |
| 2 | Canada 🇨🇦 Israel 🇮🇱 UK 🇬🇧 | 27 |
| 3 | France 🇫🇷 | 26 |
| ... | | |
| 13 | Belgium 🇧🇪 Germany 🇩🇪 | 10 |

Source: Index Ventures analysis of 24 countries

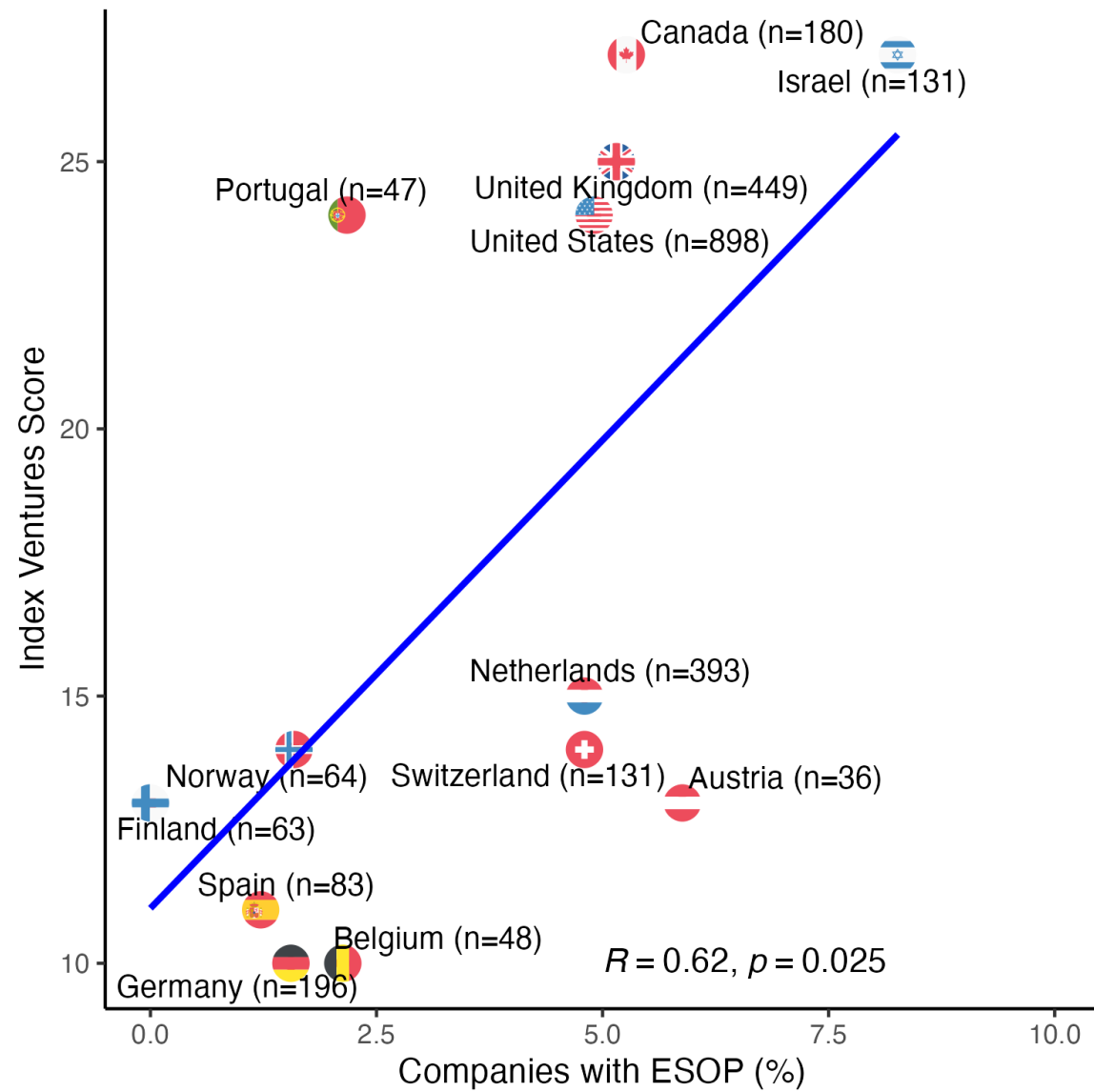
1. Plan scope
2. Strike price
3. Minority shareholders & bureaucracy
4. Employee tax (timing)
5. Employee tax (rate)
6. Employer taxation

Equidam's cap table data

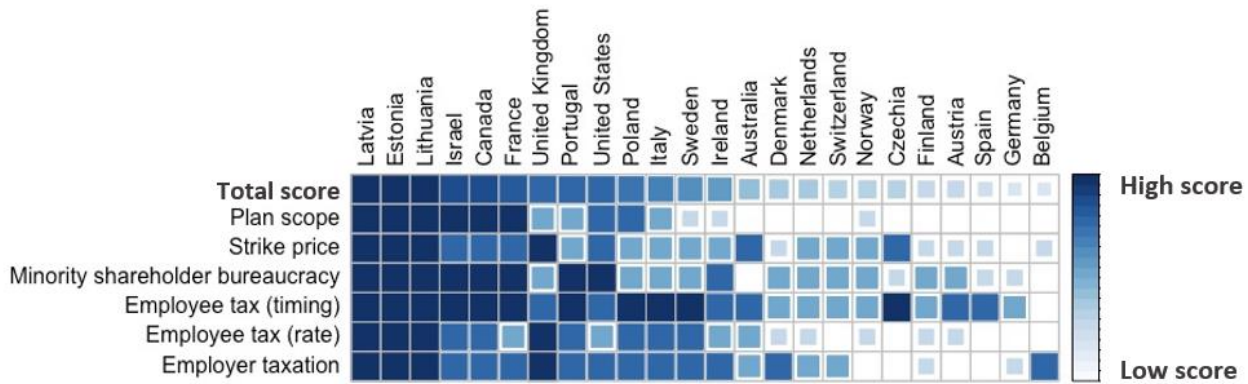


- N = 3,300
- 24 countries, including the US, the UK, Israel, and most of the EU.
- Excluded:
 - Latvia, Lithuania, Czech Republic, Poland, and Estonia (n < 30).
 - Italy, Australia, Denmark, Ireland, Sweden, and France (reformed their policies during the study period).

Main result



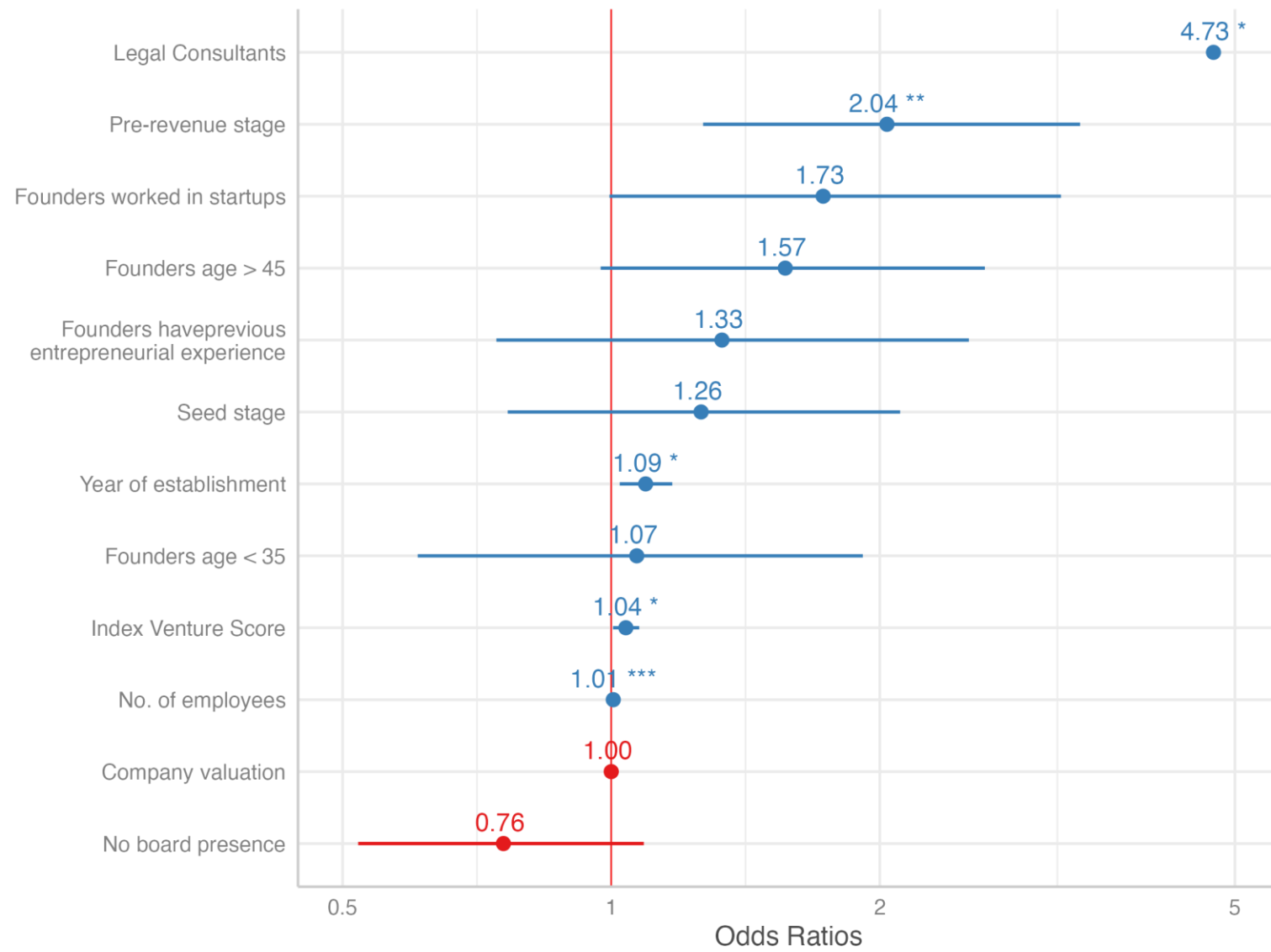
Exploring Further





Discussion

- Gilson and Schizer (2003) emphasize the impact of U.S. tax law on convertible preferred stock use.
- Policy implications include enabling low exercise price stock options for employee alignment.
- Future studies should leverage a natural experiment approach, considering policy changes in different EU states at different times.



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Callum Burroughs Mar 22, 2021, 11:20 AM GMT+2



Startups

France improves stock options policies for startup employees

Romain Dillet @romaindillet / 10:00 AM GMT+2 • January 20, 2020

 Comment

Not Optional—
Europe must attract more
talent to startups

Signed by 700+ CEOs, founders, investors and
employees of Europe's startups.

Startup community welcomes new
Dutch stock option policy – but warns
that failing to maintain momentum
on reforms will limit growth

23rd Sep 2021