How to split the founders' shares?

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Split, don't split up!

Splitting the founders' shares is almost bound to be emotional. There is no way around having thorough and tough discussions among all co-founders. If you are the one leading the process, you will ask yourself how to be fair to everyone. What if you lose a founder because they are not satisfied with the share split? Or there is lingering resentment that eats away at your company's foundation? How do you even try to predict and quantify everyone's future contributions? What is best for your company in the short and longer term? Do not assume that "it is clear for everyone". It is not.

Box 1: What if a founder becomes inactive, even toxic, performs poorly, or drops out?

You may include clauses in the shareholder agreement that will help you deal with such difficult situations. That being said, a careful selection of your co-founders remains your best hedge.

Vesting (=earning the right to an asset)

Vesting is used to incentivize a founder to remain in the startup for a predefined period. A founder who leaves during this time (the vesting period) must sell back (usually at nominal value) the shares that are not vested to the other shareholders or to the startup. The predefined period is usually around four years, with no shares vested during the first year (cliff period) and then on a monthly basis. Example: if a founder leaves after 9 months, they will have to give back all their shares (cliff at one year). If they leave after 18 months, they will keep 37.5% (18/48 months) of their shares and sell back the rest usually at nominal value.

Bad leaver, good leaver

The vesting described above would apply to "good leavers", e.g. people who leave the start-up on good terms to take another job. You may define a clause for "bad leavers" who would have to sell back all their shares (vested and not yet vested), usually at nominal value, when leaving the company. The definition of a bad leaver will be included in the shareholder agreement. Significant misbehavior is usually required to fall under the bad leaver clause.

Grow through what you go through

While negotiations may be taxing, this is a great opportunity to experience your team dynamics under pressure and to deepen your relationships, to grow in your leadership skills and to build the trust you will need moving forward. If you are skirting issues in order to keep the peace on the one hand or unwilling to consider your co-founder's point of view on the other hand, does that bode well for the future when difficult choices are bound to come up? You will not be able to please anyone 100%, not even yourself. How do you digest this and come together as a team? Who comes up with solutions and tries to reach an agreement? Often this is the lead founder, who may be in a real predicament, because they usually have the most skin in the game. Whatever your role in the negotiation, you will learn a lot about yourself and your co-founders, allowing you to mature as a team.

Consider the past…

Have everyone reveal their perception of their past and future contribution. There is definitely more comfort in valuing the past as the work has already been done. While future execution will be more important, you must take into consideration past contributions in the following dimensions:

- **Idea**. This is the basis of your project. However, ideas are free and, almost contra-intuitively, only represent a very small part of the value of your venture; execution is the most important.
- **Lead founder**. This the person without whom the project will not even be discussed. And if they drop out, the project may die.
- **Technological know-how**. Acquired during discovery and development (e.g. during a PhD), often thanks to the experience of the host lab built up over years.
- **Sweat equity**. Sometimes a future founder already worked for the start-up without being paid (no longer paid by academia, not yet paid by the start-up). Sweat equity is shares (equity) received for unpaid hard work (sweat). This does not include research work done and paid for by academia.
- **Personal investment**. Sometimes future founders have invested their own money for some aspect of the venture (e.g. paying for some IP costs).

…but focus on the future

While the future is difficult to predict, obviously, it accounts for the biggest part of the value of your spin-off. You have to carefully consider these future contributions:

- **Role and responsibility** (CEO, other). A CEO role, for example, will be linked to a lot of expectations and responsibilities.
- **Occupation** (e.g. 20% or 100+%). Shows both engagement and number of hours that will be put into the project. Note

that future investors will want to see that a majority of shares are held by people actually working in the company: even when diluted, they should still have a significant proportion of shares to keep them involved and motivated.

- Risk (career, forfeited career options and salaries). The risk is not the same for a post-doc with limited prospects in academia as for a pharma executive leaving their well-paid job to join the start-up. In any case, it represents a proof of commitment.
- Technological expertise (especially if difficult to replace). Such expertise may often be found with someone else or outsourced, but in some areas, advanced or unique technical knowledge can be key for the success of the venture.
- Business expertise (especially domain specific). Business expertise is not unique. What adds value is a mix of domain-specific business experience (start-up, technical field, fundraising) together with motivation and the willingness to take risks and join your start-up.
- Network. Should not just be 10'000 contacts on LinkedIn but a proven track record of using their network, leading to key deals, funding, or agreements. Bringing home a decisive deal or being able to raise millions – even if it does not take much time for the founder – should be acknowledged.
- Vesting of shares. Shares with a vesting plan should be considered differently.
- Control. The majority, in itself, is an unfair advantage that has to be valued as such. Someone has to have the control in the company from the very start, though, in order to avoid blocked decisions and loss of momentum (single lead founder or two co-founders, rarely more).

Box 2: Pie slicing software

Instead of distributing fixed shares at incorporation, you may use a pie slicing software that captures the contributions made by each team member and calculates each person's shares in real-time. The system is dynamic (includes changes in real time) and supposedly more objective. However, it mainly records time and money contribution and does not account for other parameters (strategic decision-making, decisive contacts, intensity and quality of work, etc.) and personalizing the tool introduces subjective items that founders have to agree on. It should be reserved for specific cases and you may want to be advised well before choosing this option.

Draw your own conclusions

There is no clear protocol or detailed map to guide you. Accept that you have been thrust into a situation that is volatile, uncertain, complex, and ambiguous and that you will just have to feel your way forward. Some co-founders may have open discussions while other would prefer a more "mathematical" method (see example in Table 1, where you agree on a list of contributing factors you want to consider and how to weigh them, and on the respective contribution of each founder). At the end of the day, you will have to agree on the best split, that is favorable (or at least not perceived as detrimental) for all the stakeholders, and, more importantly, for the start-up.

For this process, it may be very useful to involve a third party to assist in these discussions. They should be skilled in mediation and have relevant experience in similar cases (e.g. from the technology transfer office, incubator, or a law firm) to be able to provide relevant benchmarks. A coach can support the lead founder or also the individual co-founders work through this challenging process.

Table 1: **Splitting exercise example (has to be tailored to your situation and field).**

	Weight	**Lead founder** Future CSO	**Professor** Future advisor	**Entrepreneur** Future CEO
Idea and technology development	5	10	6	0
Criticality for start-up creation	10	9	2	0
Unpaid salary and personal investment	5	6	0	0
Career and personal risk	8	7	0	9
Responsibilities and work load	8	8	1	8
Business expertise and network, key contacts	7	5	1	8
Vesting	x 1.2	Y	N	Y
Total (weighted)		390	65	230
Equity		**57%**	**9%**	**34%**

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