



Stanford eCorner

Option Pools and Sharing Wealth with the Team

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Video URL: <http://ecorner.stanford.edu/videos/1840/Option-Pools-and-Sharing-Wealth-with-the-Team>

Jason Green, Founding Partner at Emergence Capital, shares insights into how entrepreneurs should think about establishing an option pool. Green suggests reserving 20% to 30% of the ownership as an option pool and to think about sharing wealth in order to create a bigger pie rather than holding tight to a smaller pie.



Transcript

For a very early stage startup that has maybe one or two members in the management team, how big an option pool will they typically require over the life of a company? How do you guys think about that or Michael? Again, my view of that in kind of the traditional Silicon Valley metaphor which I think 20 % to 30 %; over time is probably something that seems to be a rule of thumb that's played out. My experience of working with Endeavor entrepreneurs to date has been that they're actually very willing to share the rewards with those who produce. It's actually the investors that for some reason, don't understand. They feel like they're being deluded actually by sharing that ownership with more people in the company, which is a bizarre concept to me. I've seen it now multiple times. I think it's what's important to take away for the Endeavor entrepreneurs here is to understand that that is a critical success factor in building these companies and making sure that you do share that wealth. You have to have investors that are aligned with that vision as well. It is a valuation issue ultimately as well in terms of your own delusion. In terms of figuring out how to build the pie as big as possible, I think everybody in this room knows that it's the people that get up everyday, come into your office that are working to build value, that are going to be the reason we succeed or not. Both from an investor perspective and an entrepreneur perspective, those kinds of issues should be well aligned.

It's unfortunate that even if the entrepreneur comes to that conclusion, sometimes the investors in these countries don't seem to have that same philosophy.