



# State of ESOPs in Southeast Asia

A region-first report on the intersection of startup equity and human capital

**2021 Findings**

# Foreword

## Why ESOPs, Why Now?

2021 has heralded a new era for startup talent in Southeast Asia, with record levels of venture capital funding and unicorn creation. For many, joining an existing or future unicorn is no longer a far-fetched dream, but a likely reality.

People who share the risks of building a successful company should also share the rewards. Powering Southeast Asia's unicorn acceleration is an increase in conversations around stock compensation for talent.

Catalysed by greater competition for talent and visible upside for exits (trade sales, IPOs and SPACs), founders in Southeast Asia can no longer ignore stock compensation.

Saison Capital, alongside Svested, have collaborated on a first-in-the-region landscape study in Southeast Asia, engaging with founders to understand the current state of employee stock option plans (ESOPs). We believe that more conversations will lead to greater awareness, greater awareness will lead to better practices, and better practices will create a win-win situation for both employers and talent.

Companies that introduce, structure and continuously refine employee stock options will win the war for talent. But there's a little more to ESOPs than that.



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## About Saison Capital

Saison Capital is an early-stage venture capital fund (pre-seed to Series B) with a focus on emerging markets.

We back ambitious founders solving big problems, focused on embedded finance - non-fintech companies expanding into fintech.

Each individual in our team comes from an operating background, and we are unafraid to roll up our sleeves to support our founders.

We are backed by Credit Saison, a Tokyo-listed 30b AUM consumer finance company with extensive financial services across Asia.

Find out more at [www.saisoncapital.com](http://www.saisoncapital.com)



## About Svested

Svested is a trusted partner to founders. We support them by digitalising and handling their administrative matters so they can pursue their purpose, grow their profits, and attract and retain good people.

As one of Southeast Asia's leading ESOP specialists, we advise founders in the planning and setting up of their startup equity strategy. We enable founders and employees to manage their ESOPs easily through a user-friendly digital platform.

We are also an ACRA-certified Filing Agent and provide a comprehensive end-to-end service that takes care of all administrative and compliance matters, from incorporation to exit.

Find out more at [www.svested.com](http://www.svested.com)



# Executive Summary

This initial report offers a strong starting point to survey the state of employee stock option plans (ESOPs) in Southeast Asia. **We have learned that founders are implementing ESOPs for the right reasons, but they need to take a longer-term view to maximise their utility.** For example, ESOPs need to grow in size, along with the company. Currently, most startups assign 10% or less for ESOPs at seed stage, but this remains across subsequent rounds of fundraising.

There's more good news - **most startups offer stock options to team members who sit outside senior management.** This is worth celebrating and should be further encouraged. Also, we learnt **the critical role investors and employees alike play to encourage founders to start ESOPs.**

However, there needs to be greater awareness and understanding of ESOPs, especially around buy backs and top ups. Reducing these frictions would encourage more startups to set up ESOPs.

We hope that by capturing the current landscape, founders and employees can approach ESOPs with a better understanding of how they are being used, and how they could serve a greater purpose in talent attraction and retention strategies.

## Why does this matter?

There are a few surprising insights that we think demand attention:



ESOPs can be prohibitively expensive for employees, as many companies set **strike price at the same level as their valuation at the last round of fundraising**, and give departing employees **less than 6 months to exercise options.**



A shocking number of companies **dissolve all options (including vested) upon employee departure.** This acts as golden handcuffs, keeping employees trapped by their options.



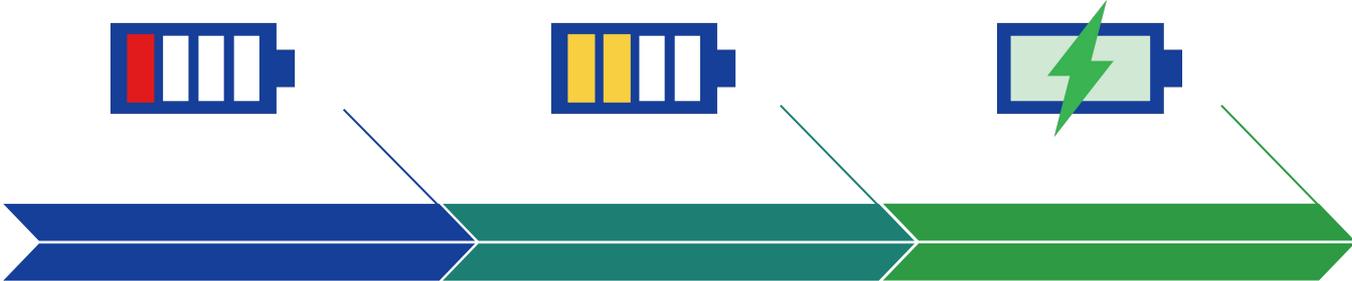
Only half of companies offer accelerated vesting to employees in liquidity events. This means that in the event of an exit, the **other 50% of startups' employees will not be able to reap the benefits of their unvested options.**

It's not all bad news though: **leaders at startups are keen to explain ESOPs to employees, primarily before they even accept job offers.** However, the efficacy of this depends on how familiar founders and senior executives are themselves in understanding ESOPs, which, we discovered, is not necessarily the case.

We hope this report serves to inform and educate you - and if you're still struggling to wrap your head around ESOPs, fear not. We have our handy cheat sheet summarising the key takeaways at slide 38.

# Note on Findings

Of the 20 observations from this study, we identified an equal number of opportunities for improvement and positive practices to keep up.



### Opportunities for improvement

**9**  
OBSERVATIONS

*For example (page 19):*  
1 in 5 startups dissolve all options (vested or otherwise) when an employee leaves.

### Neutral

**2**  
OBSERVATIONS

*For example (page 15):*  
Most companies follow the 1 year cliff and 4 year vesting period.

### Positive practices to keep up

**9**  
OBSERVATIONS

*For example (page 22):*  
More than 9 out of 10 leaders make the effort to explain ESOPs to their prospective hires.

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# What founders understand about ESOPs

## Chapter 1



# Founders implement ESOPs for the right reasons: culture and retention

## Reasons founders implement ESOP:



**87%**

To retain talent



**86%**

To build culture and create a sense of ownership



**79%**

To attract talent



**33%**

To save cost to increase liquidity

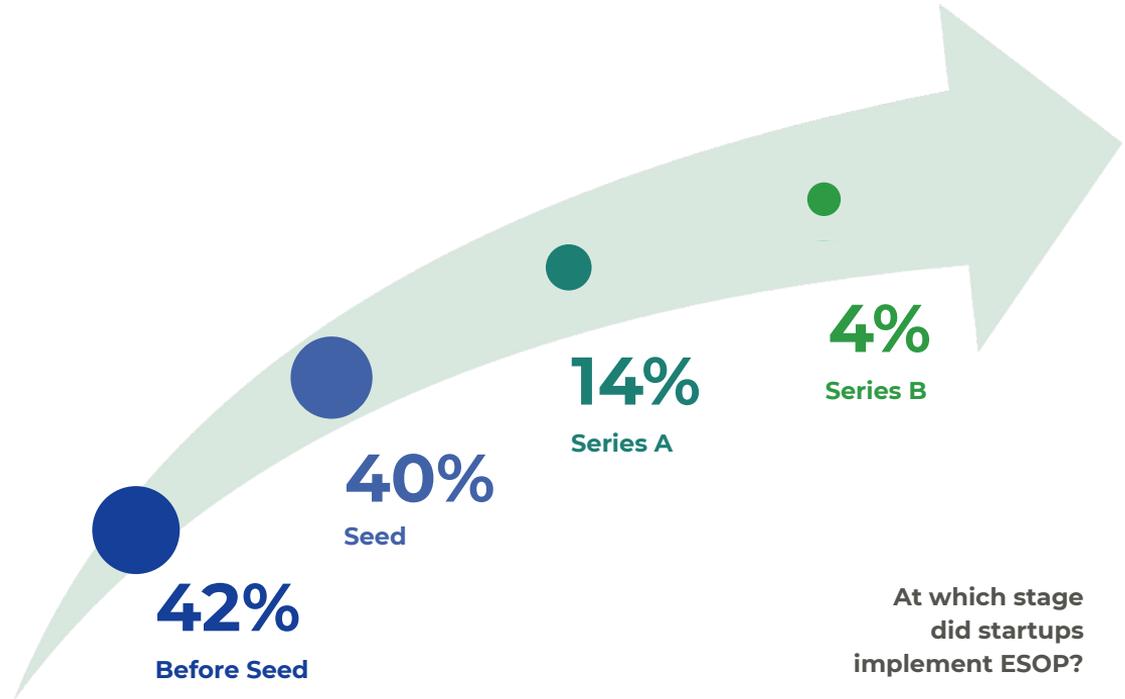
Founders are more likely to implement ESOPs to retain and attract talent, or to build a good workplace culture with a sense of ownership.

Only a minority of founders view ESOPs as a cost-saving device to reduce overheads spent on salary and other benefits. While ESOPs can reduce the initial cash spent on compensation, it is by no means “cheap” - especially considering how it dilutes stock pools for future fundraising.



# Most founders that offer ESOPs to employees implemented them at an **early stage**.

- ESOPs help to align incentives between investors, founders and employees. The earlier this happens, the more likely it will generate value for all parties involved.
- Early-stage companies often struggle to compete in the war for talent with more established, well-funded peers.
- Offering ESOPs enhances the employer's value proposition, where early employees can reap significant financial upside when the company succeeds.

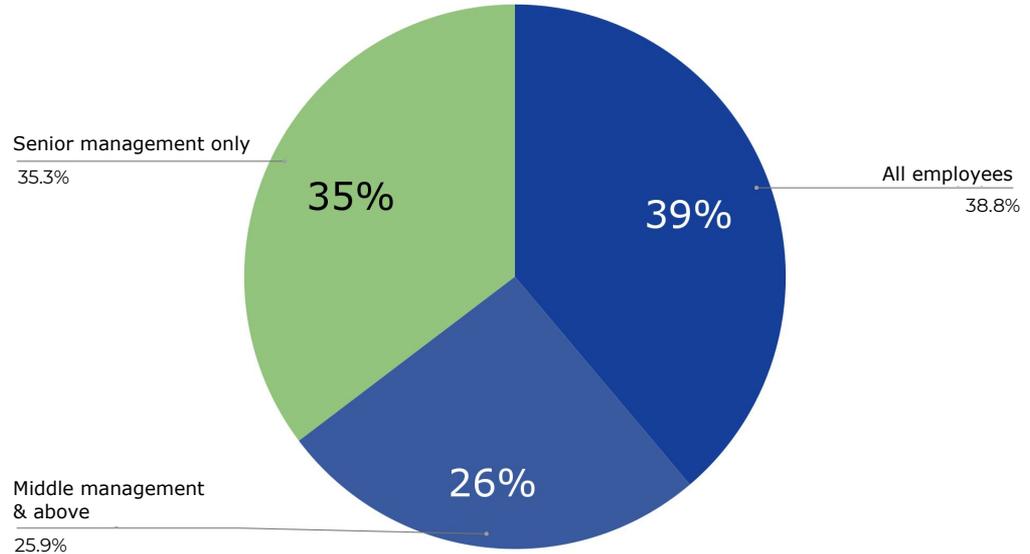




# ESOPs for everyone: 2 out of 3 companies offer stock options to employees outside the senior management team

- The majority of Southeast Asian startups offer ESOPs to employees outside of the senior management team. Nearly 2 in 5 offer ESOPs to all employees, regardless of rank.
- This approach aligns incentives and motivations across the organisation and nourishes a culture of ownership.

Which employees do you issue ESOPs to?





# However, there is a **lack of understanding** of how to use ESOPs beyond the basics.



While most founders understand ESOPs' vesting schedules, the majority do not understand **how to translate ESOPs into cash** (through buybacks).

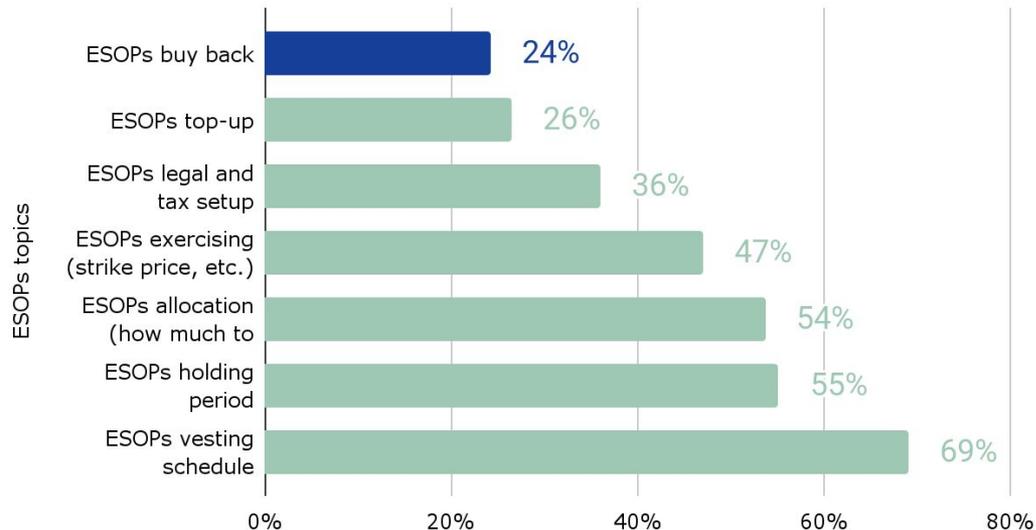


This means **challenges exist for founders and employees to fully realise the value of their ESOPs** and limits the realisation of potential upside.



It is also concerning that founders **do not understand ESOPs top-up**: growing the pool of stocks that can be allocated to ESOPs. This explains why ESOPs do not grow across subsequent rounds of funding (more on next page).

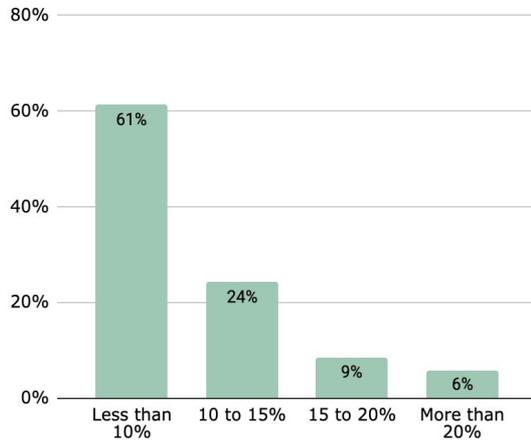
Founders who say they understand the following ESOPs topics:



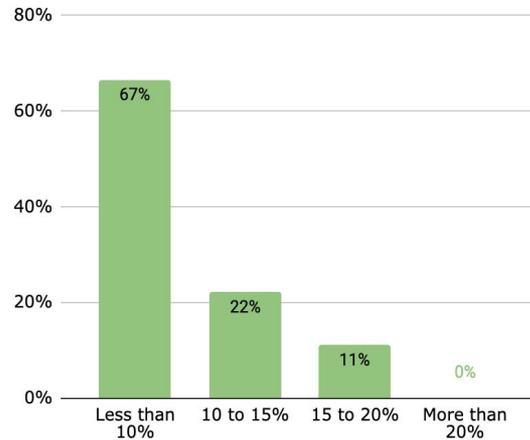


# Unfamiliarity of ESOPs top-up results in relatively stagnant ESOP pools **even at later stages**

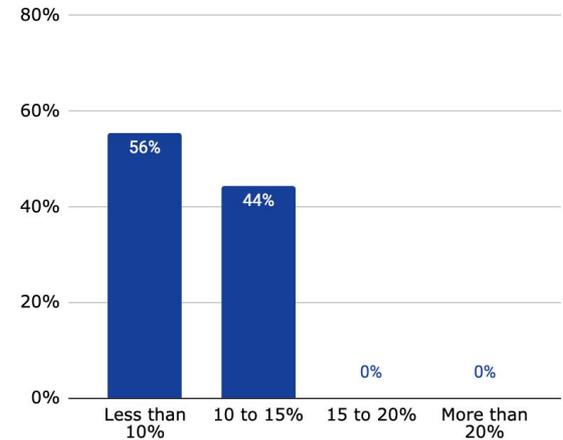
Size of ESOP pool at Seed funding



Size of ESOP pool at Series A funding



Size of ESOP pool at Series B & beyond



- At Seed stage, 2 out of 3 companies have ESOPs of 10% or less.
- While the number of employees grow at Series A and beyond, ESOPs are not growing accordingly.
- This could impact talent attraction if there are not enough ESOPs to offer a competitive compensation plan.



## 2 out of 3 Southeast Asian founders could be more familiar with the risks associated with ESOPs.

Any financial instrument or share-related matter carries risk, so it is alarming to see how many founders have limited awareness of the risks associated with ESOPs.



### Potential risks include:

- Over- or under-capitalising ESOPs, which can impact talent attraction and retention.
- Legal implications of stock ownership can differ by the country that the company or employees are based.
- Tax implications on the company and employees, especially during exercise, buyback or liquidation.

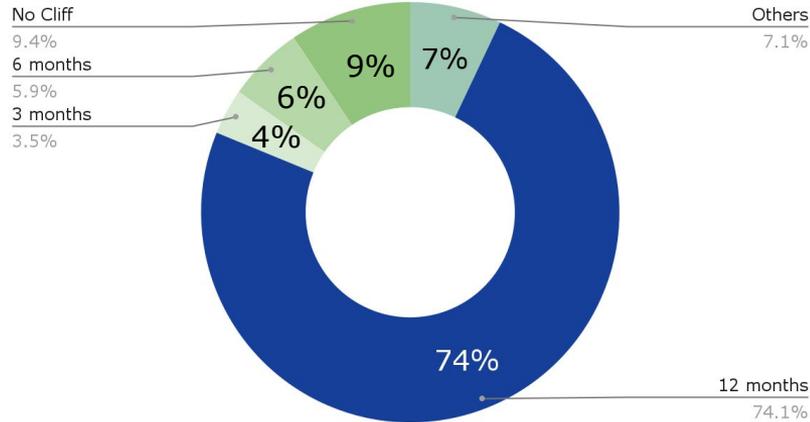
# How founders structure ESOPs

## Chapter 2

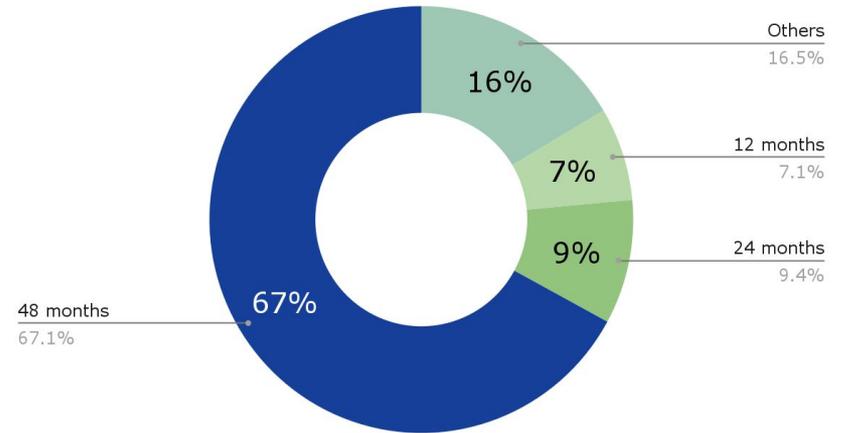


# Most companies follow the **standard ESOP structure**.

What is the cliff period?



What is the vesting period (including cliff)?

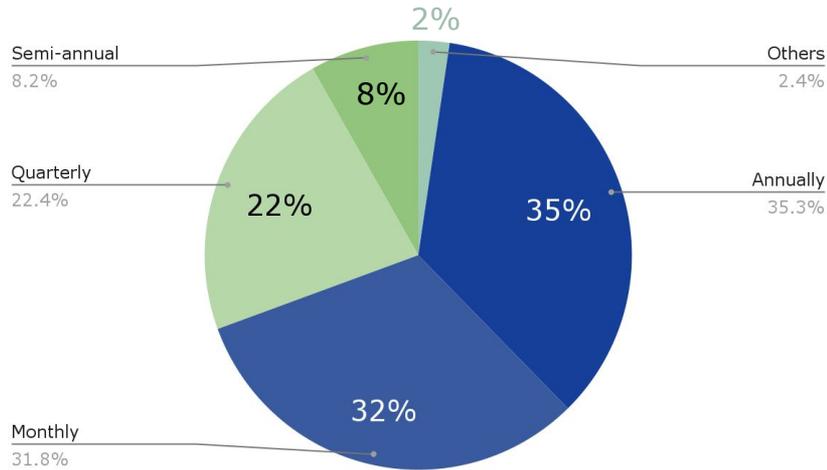


That is, a 4-year vesting period with a 1-year cliff. This aligns with the global industry standard in tech.



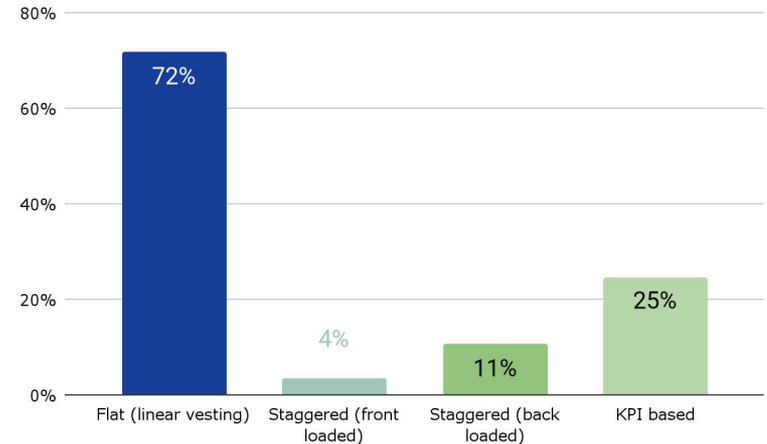
# Annual and monthly vesting are equally popular among startups; most adopt linear vesting structures.

What is the vesting cycle after cliff period?



Monthly vesting is recommended, as it reduces the risk of mass attrition at the end of the financial year - when stock options typically vest, in the case of annual vesting - which may strain a startup's human capital strategy. Furthermore, monthly vesting allows employees to be fairly compensated for their effort - one who works 11 calendar months of the year before leaving should be entitled to a prorated reward.

What is the vesting structure?<sup>1</sup>



Linear vesting structures are also simpler to communicate and administer, compared to other forms. It creates predictability for both founders and employees, as well as administrators such as accountants and auditors.

<sup>1</sup> Founders were allowed to select more than one option, hence responses do not add up to 100%



# Only 1 in 3 founders offer a low or negligible strike price, making ESOPs more valuable to startups than their employees.

How do you set the strike price?



**36%**

Low or negligible strike price



**45%**

Based on the price per share for the latest fundraising round

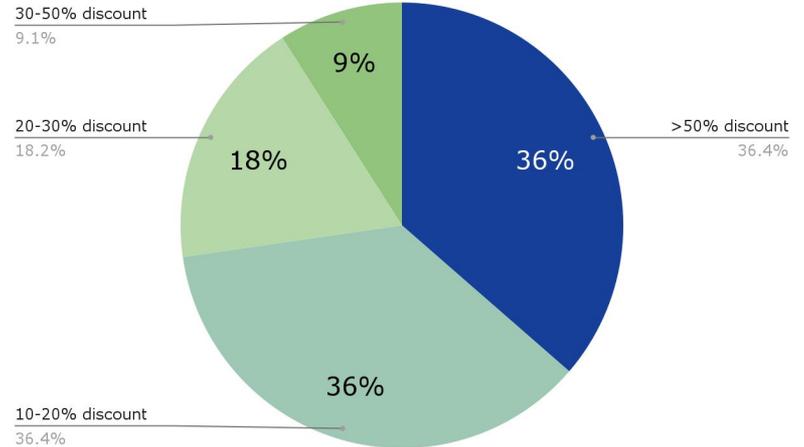


**19%**

A discount off the price per share for the latest fundraising round

The majority of founders set strike prices in line with valuations at the last round, which means employees may not be able to afford the strike price, especially at later stages of funding. If employees cannot afford to exercise their stock options, their ESOPs are worthless to them.

Discount % for those who set a discounted strike price.

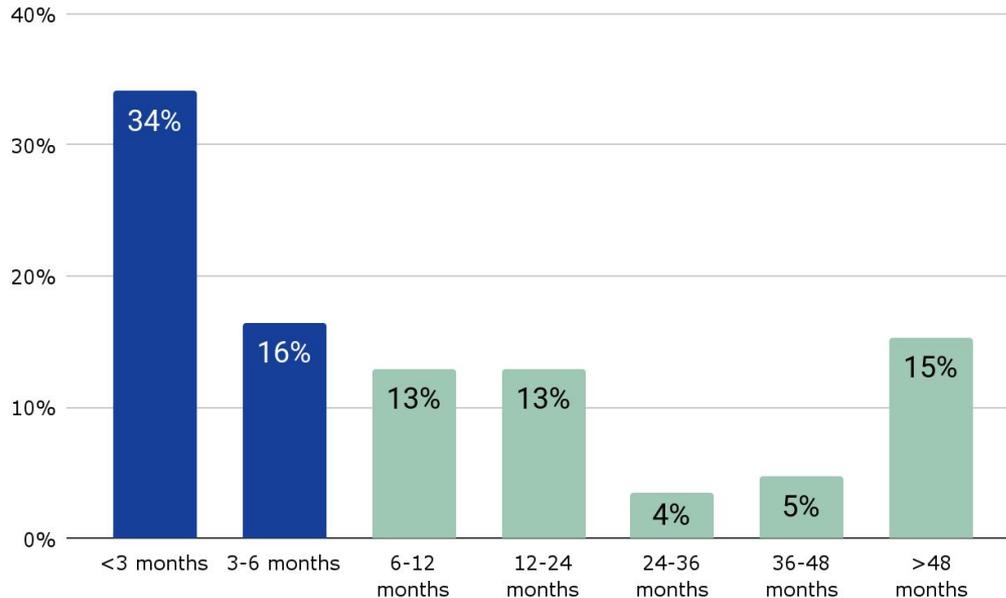


While more than a third of startups offer generous discounts of more than 50% off strike prices, another third offers limited discounts of 10 to 20%.



# Half of startups give employees 6 months or less to exercise their options.

If an employee who is leaving can exercise their options within a set period, what is that period given to employees to exercise?



If an employee is leaving, they may struggle to shore up sufficient capital to exercise their stock options, rendering any vested ESOPs as forfeit.

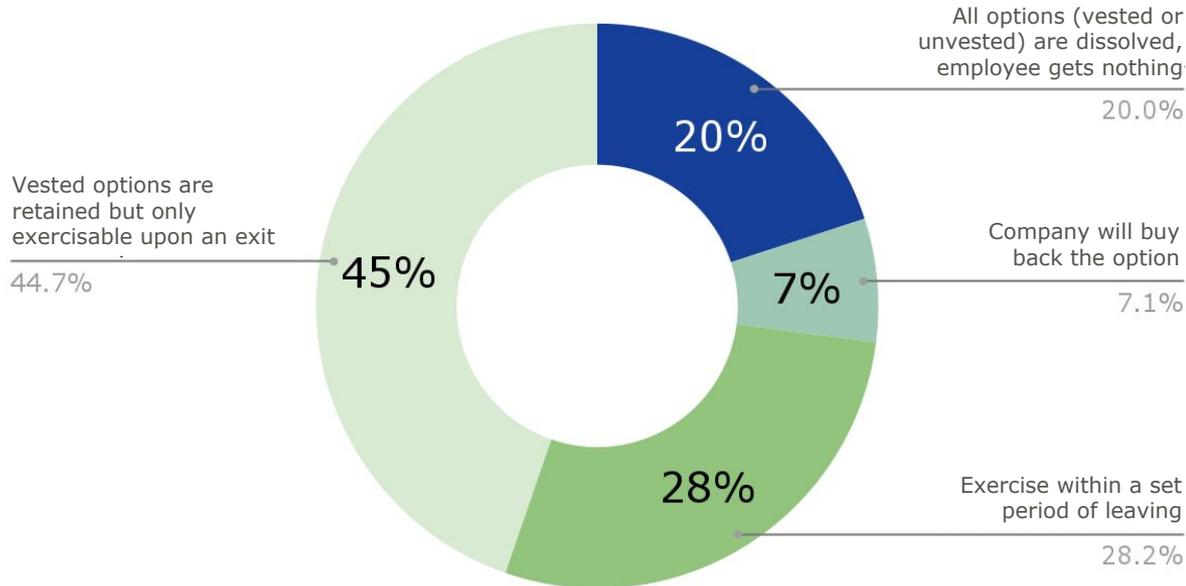
Furthermore, there are tax implications to exercise ESOPs. In jurisdictions such as Singapore, gains from the exercise of ESOP are taxable even when these gains are not realised in cash.

This can result in a 'double-whammy' for employees, who need cash to both exercise ESOPs and pay taxes



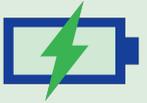
# Shockingly, 1 in 5 startups dissolve all options (vested or otherwise) when an employee leaves.

What happens to the stock options when an employee leaves?



This practice means that employees who leave a startup **lose all of their ESOPs benefits**, even vested options. This acts as golden handcuffs, tying people to a role as they receive zero upside to the company's success if they leave.

While certain situations are regulatory-driven (e.g. in Vietnam, ownership of foreign company shares is only permitted among current employees), founders can consult lawyers and tax advisors familiar with local regulations to set up appropriate ESOPs that both abide by regulation and reward employees even after their exit.



## 3 in 5 startups operate good/bad leaver policies for ESOPs.



## Bad leavers tend to be fairly defined.



According to startups, a bad leaver is an employee fired for major disciplinary breaches (96%) or involved in fraud, negligence or in breach of confidentiality (92%).



Most startups do not consider employees who choose to leave as bad leavers (only 6% do).

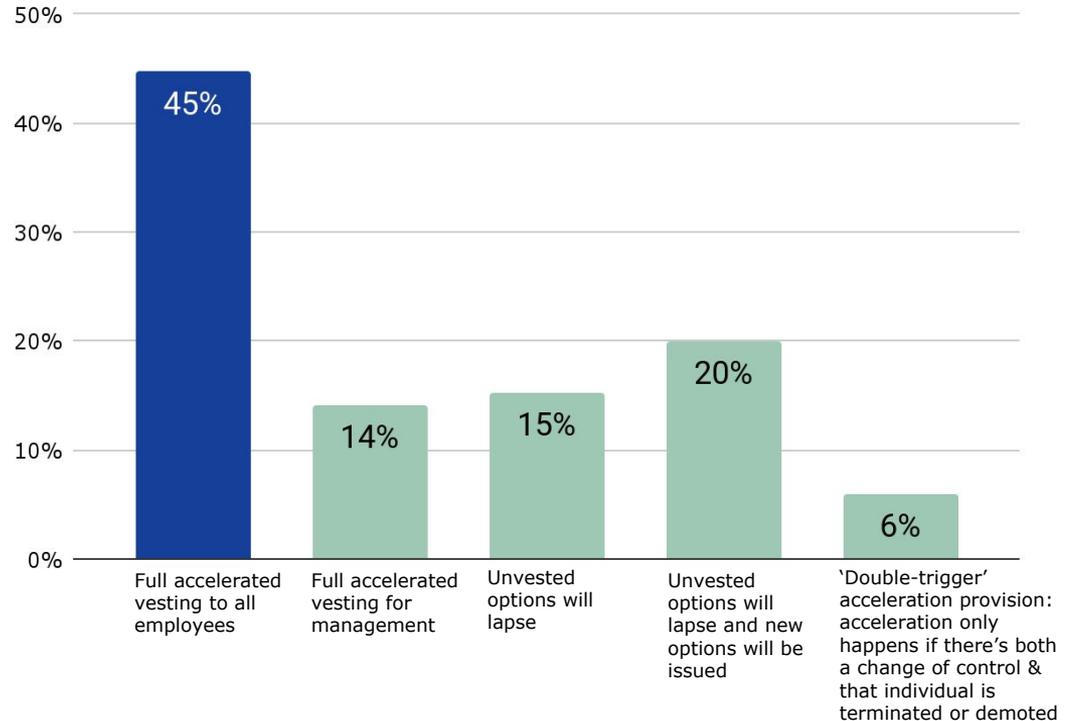


However, 1 in 3 startups consider employees who are terminated for poor performance to be bad leavers, which could create conflict. A good/bad leaver policy ensures all employees have clarity around the implication of leaving on their ESOPs.



# Only 1 in 2 companies offer accelerated vesting to all employees in a liquidity event.

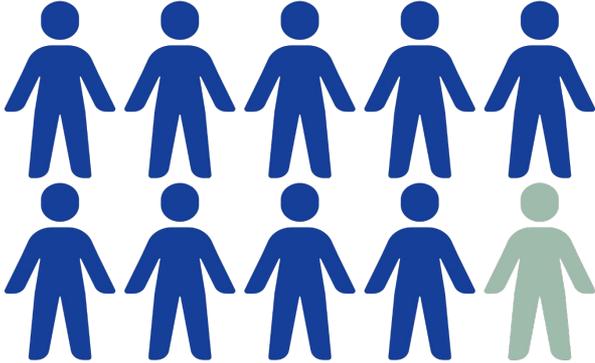
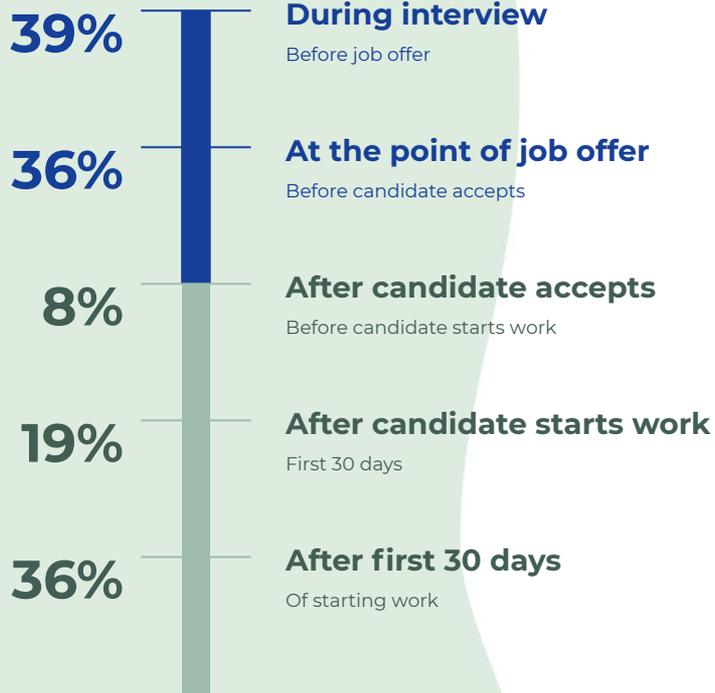
- A liquidity event should offer the whole team a chance to reap the rewards of their ESOPs, even if in part.
- However, 1 in 7 startups only offer accelerated vesting to senior management; excluding the rest of the company from the benefits of a liquidity event.
- A shocking 1 in 3 companies will let unvested options lapse, and only half will issue new options. In these situations, employees risk losing potential financial upside, as the clock for cliff and vesting has “restarted.”





# Most startups explain ESOPs to their employees **before the contract is signed.**

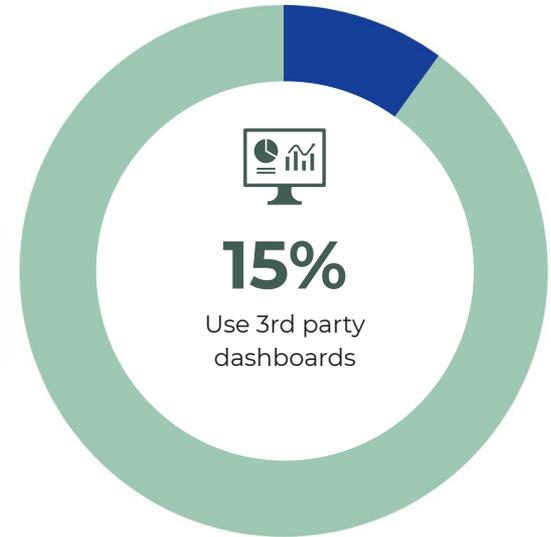
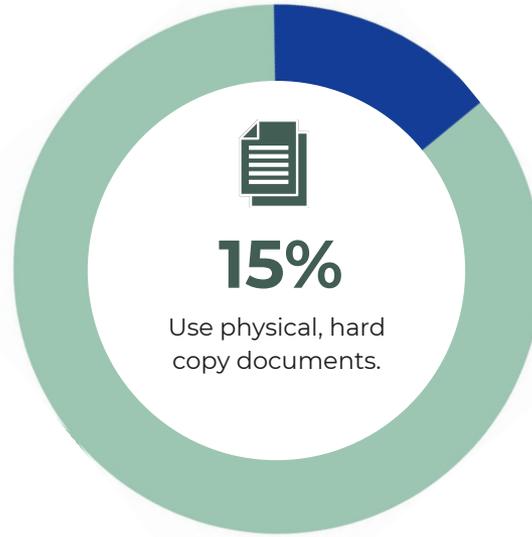
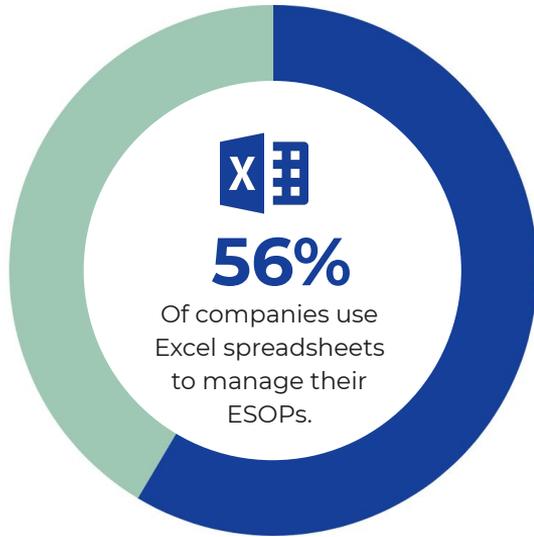
More than **9 out of 10** leaders make the effort to personally explain ESOPs to their prospective hires.



Founders were allowed to select more than one option, hence responses do not add up to 100%

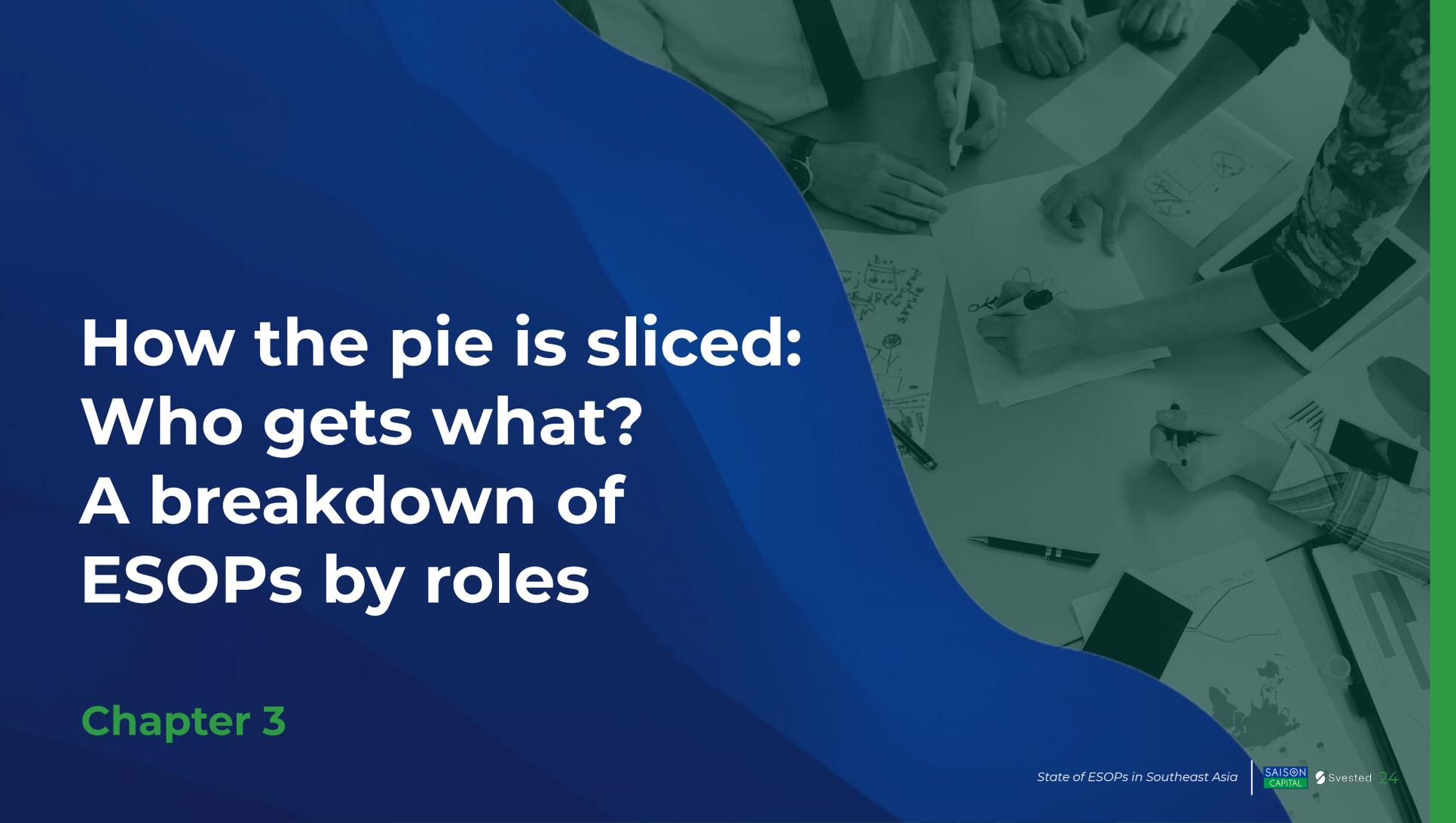


# Startups are still using Microsoft Excel to manage ESOPs.



## Only 1 in 6 startups use a purpose-built dashboard to manage ESOPs.

Dashboards allow employees to see and manage their own ESOPs. This should be more commonplace, to promote greater transparency and awareness among founders and employees. Moreover, with frequent updates on ESOPs (e.g. via ESOPs vesting slips, revised ESOPs valuation upon completion of fundraising), it enhances the legitimacy and reminds employees of the value of ESOP.

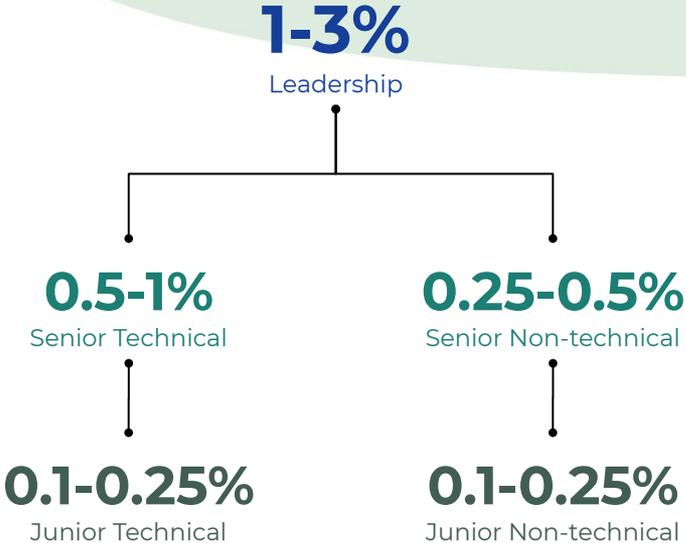


# How the pie is sliced: Who gets what? A breakdown of ESOPs by roles

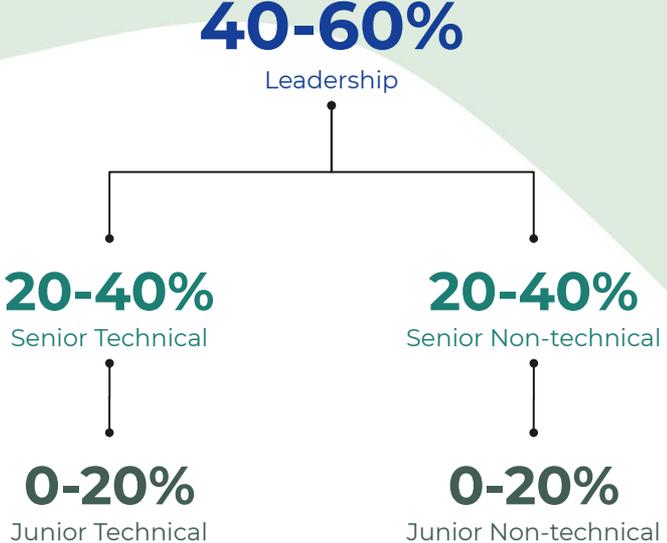
## Chapter 3

# Overview of ESOPs awarded across the organisation

Median ESOPs as a % of company shares:



Median ESOPs as a % of annual cash compensation<sup>1</sup>:

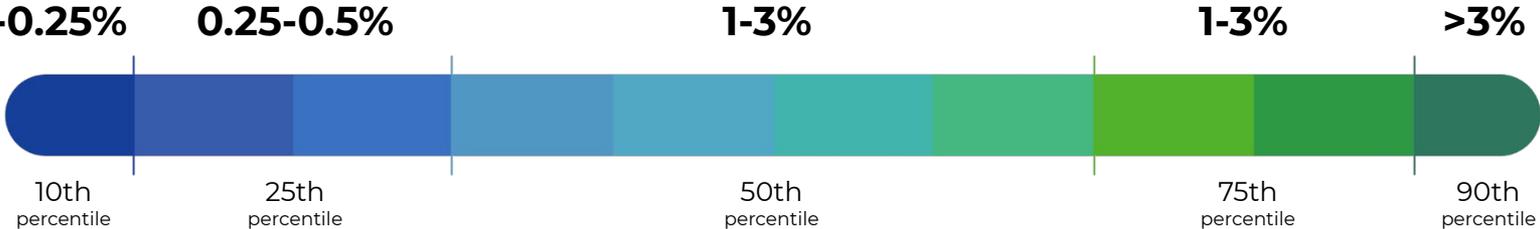


<sup>1</sup> For example, if an employee has an annual cash compensation of \$100K, s/he receives \$XXK in ESOPs on top of cash compensation

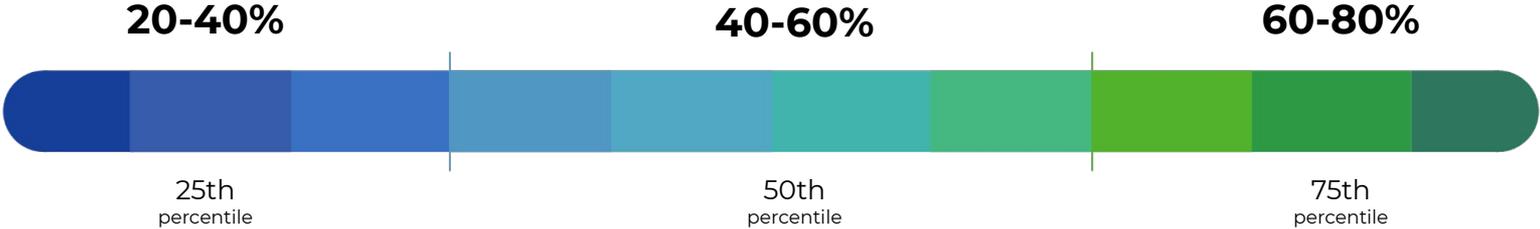
# Leadership

This is the senior management team: Directors; the C-Suite; Executives.

ESOPs Received (as a % of total company shares):



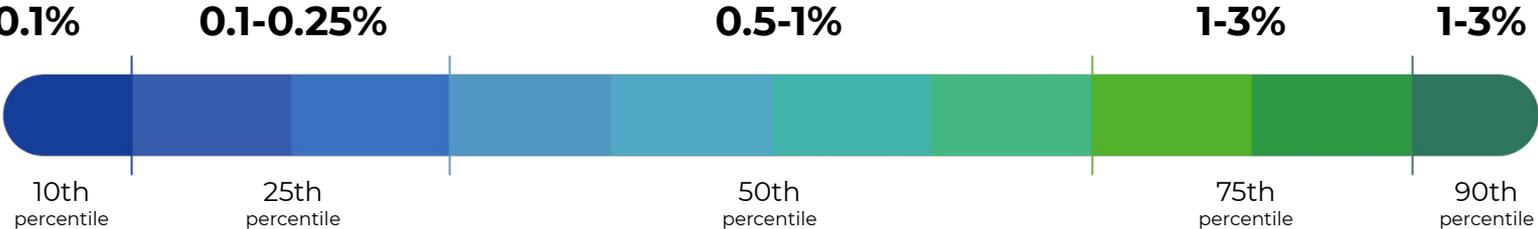
ESOPs Received (as a % of annual cash compensation):



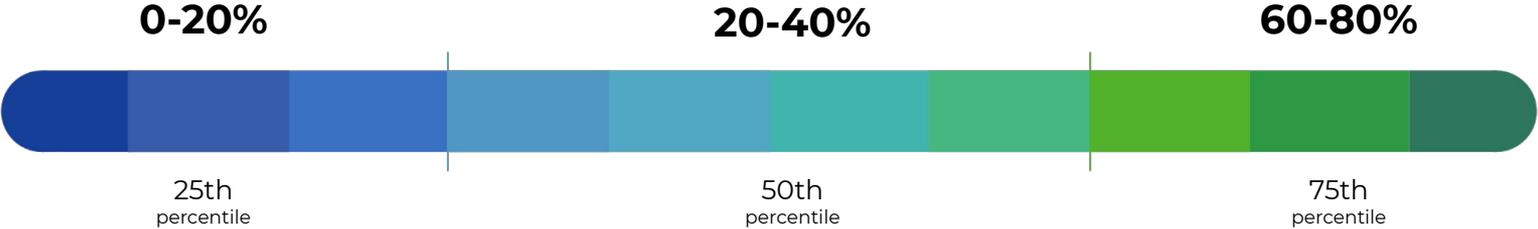
# Senior Technical

Technical team members work in the product and technology side of the business.

ESOPs Received (as a % of total company shares):



ESOPs Received (as a % of annual cash compensation):



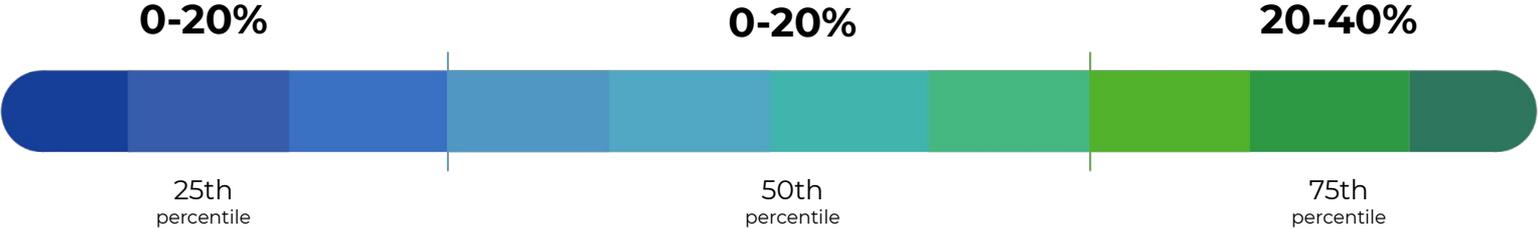
# Junior Technical

Technical team members work in the product and technology side of the business.

ESOPs Received (as a % of total company shares):



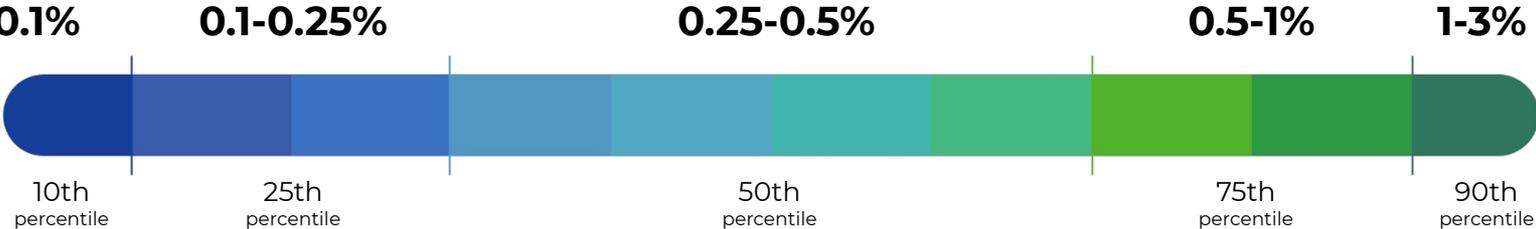
ESOPs Received (as a % of annual cash compensation):



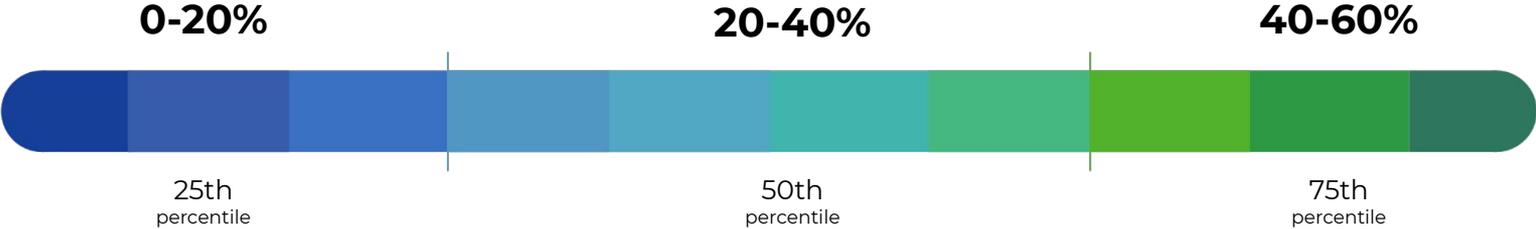
# Senior Non-Technical

This includes Operations, HR, Marketing and Sales team members.

ESOPs Received (as a % of total company shares):



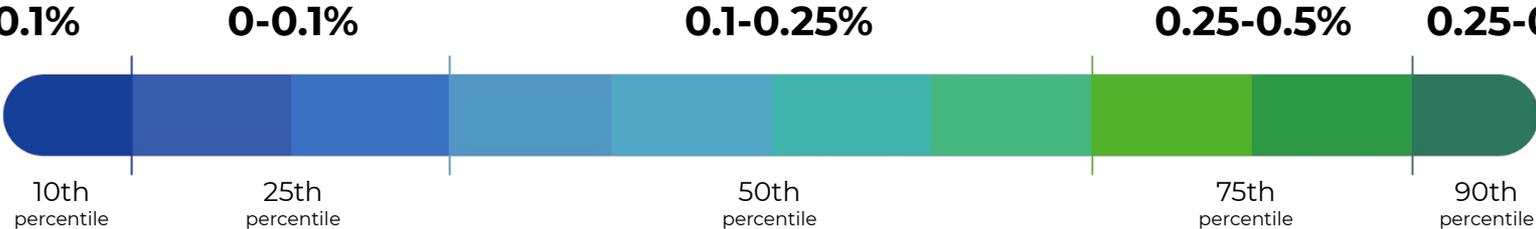
ESOPs Received (as a % of annual cash compensation):



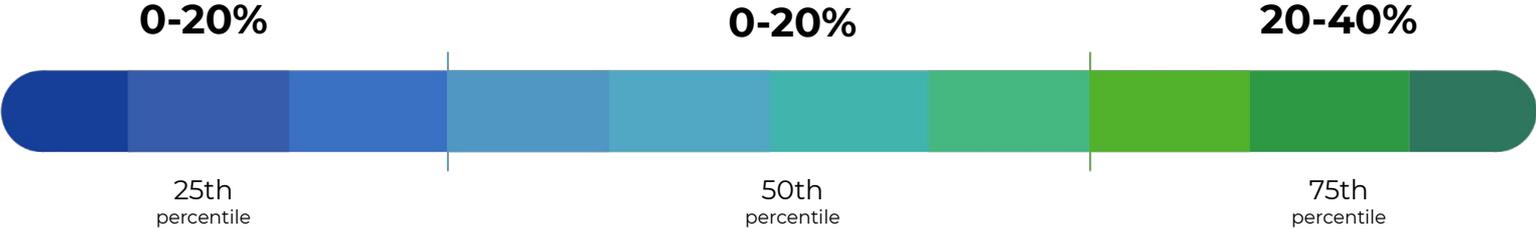
# Junior Non-Technical

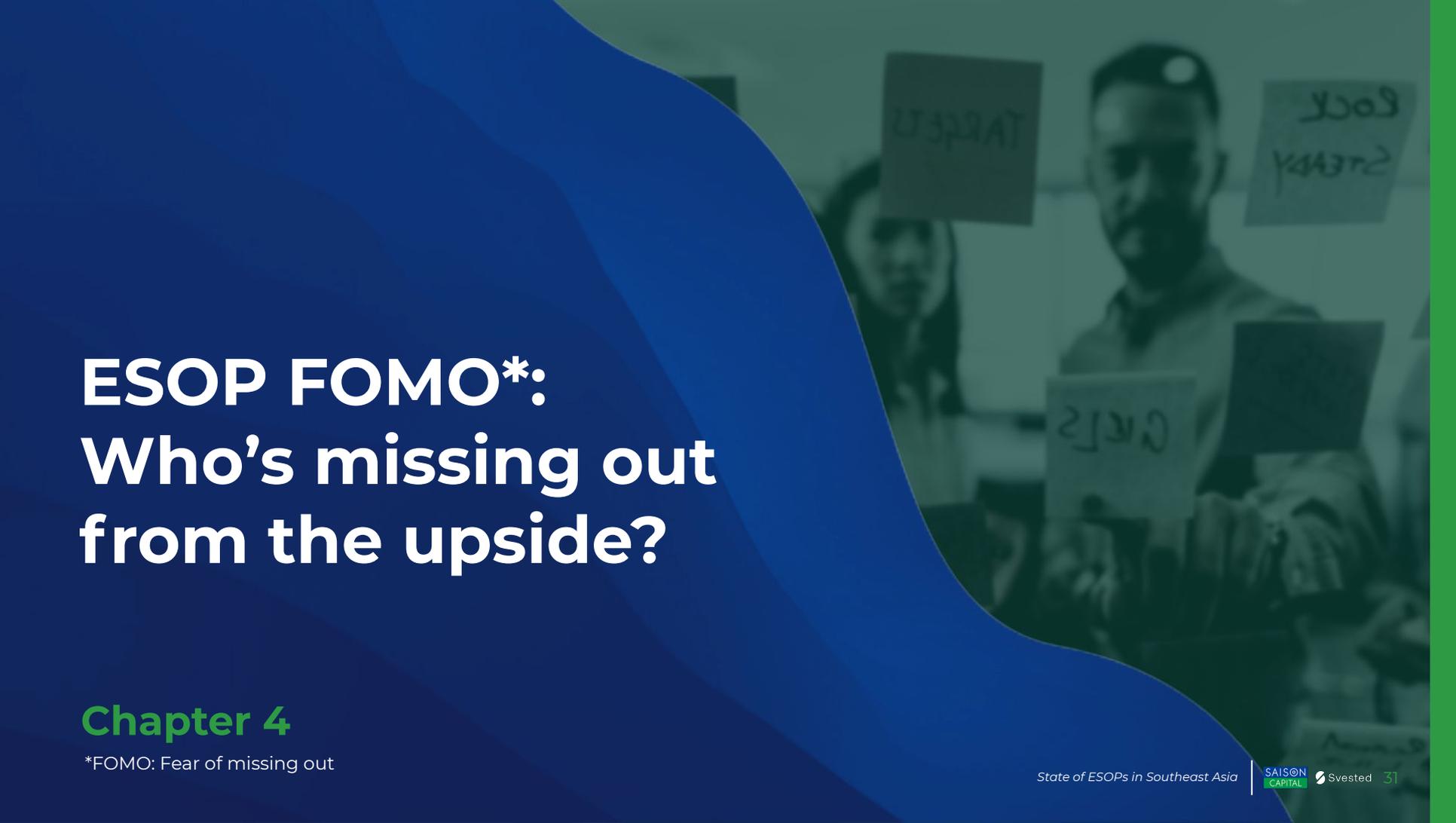
This includes Operations, HR, Marketing and Sales team members.

ESOPs Received (as a % of total company shares):



ESOPs Received (as a % of annual cash compensation):





# ESOP FOMO\*: Who's missing out from the upside?

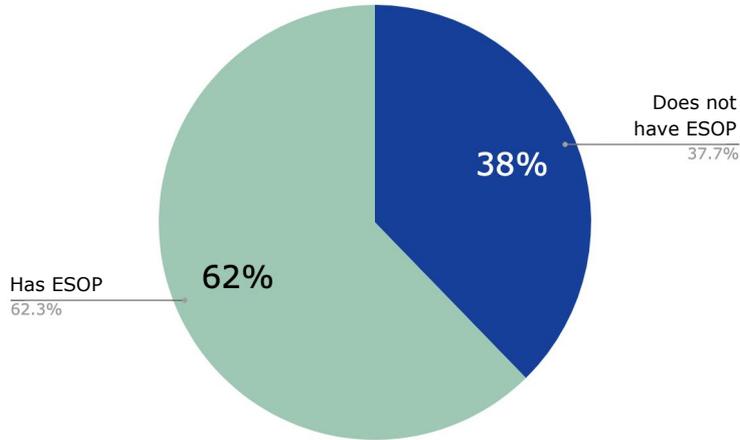
## Chapter 4

\*FOMO: Fear of missing out

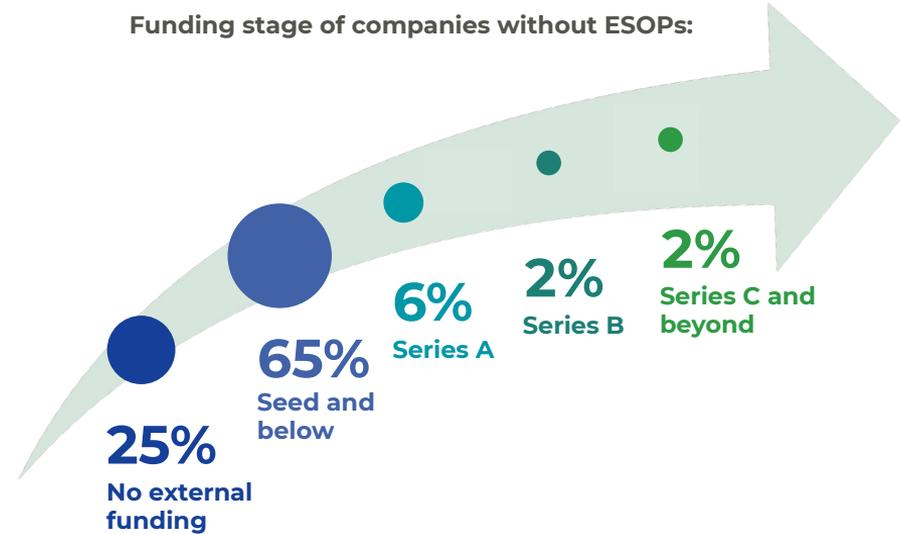


## 2 out of 5 startups in Southeast Asia do not use ESOPs.

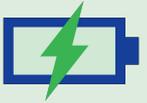
Does your company have ESOPs in place?



Funding stage of companies without ESOPs:

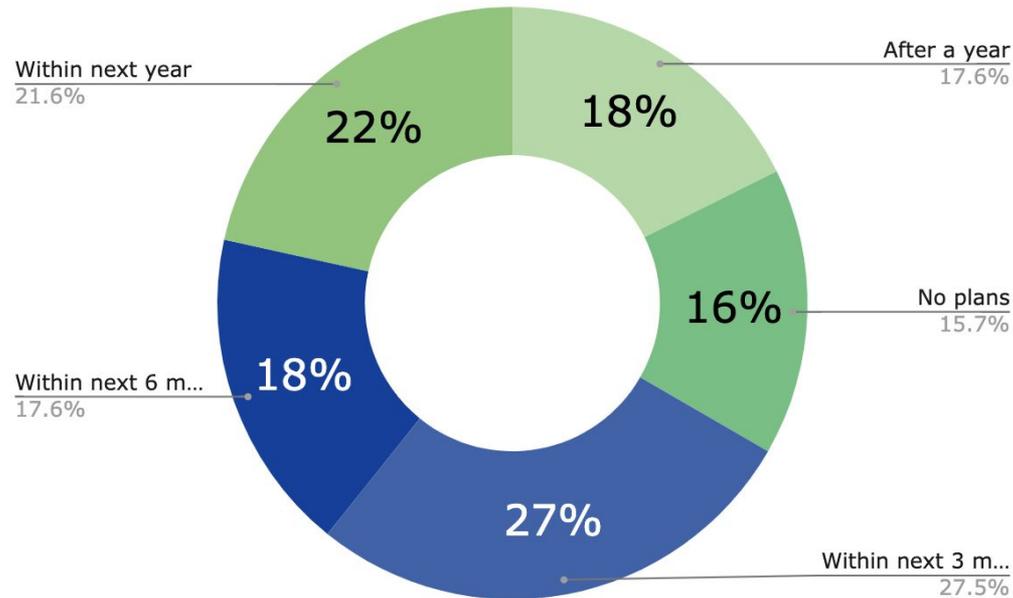


The majority of companies that do not have ESOPs are seed stage (or earlier) or have grown without external funding.



## Almost half of these companies intend to set up ESOPs in the next 6 months.

How soon do you foresee yourself setting up ESOPs?



Around 1 in 6 startups who do not have ESOPs already, have no plans to set up ESOPs. There is a clear need to improve awareness of and education around ESOPs and their benefits for startups and talent alike.



# The greatest hurdles to ESOPs adoption are doubts over their efficacy and understanding of the process.

## The top 3 reasons that companies without ESOPs do not use them:



Accounting and audit implications



Complicated administrative process



Not enough information about ESOP



Not sure what is ESOPs or how it works



Ownership dilution



Majority of the employees do not want it



Tax implications



# Investors and talent play a key role in motivating leaders to adopt ESOPs.

## 5 in 10 founders

who are setting up ESOPs in the next 6 months were asked by investors and/or employees to do so, revealing the critical role these stakeholders have in creating an ESOPs infrastructure.



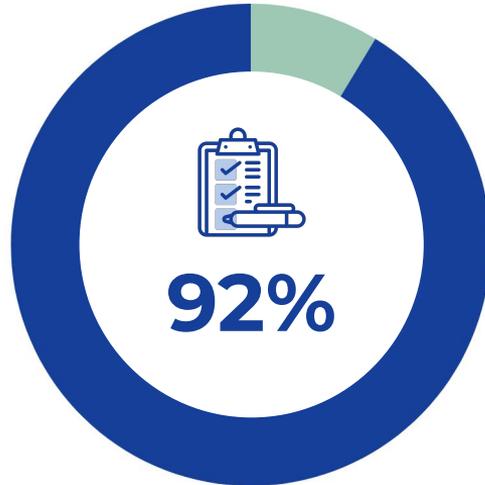
### In contrast...

- Those who are not planning to set up ESOPs within next 6 months had less investor / employee pressure
- Only 18% of these founders said investors had asked them to set up ESOPs
- Only 15% of these founders said employees had asked them to set up ESOPs

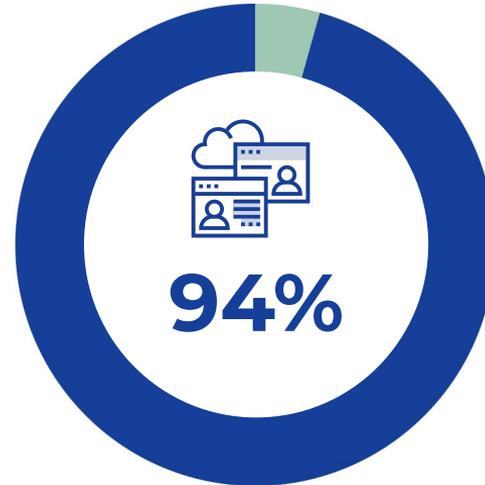


# The majority of founders would implement ESOPs if it was an easier process.

**92% of founders** would be willing to implement an ESOPs strategy if there was **someone to guide them through the structuring and setup process.**



**94% of founders** would be willing to implement an ESOPs strategy if there was a **platform that made the administration process easy.**



**Could this be an emerging niche of Startup Service as a Service startups?**

# The three stages to ESOPs success

## Chapter 5

# Three stages to ESOPs success.

## 1. Plan

### **Understand:**

Invest the time to understand ESOPs, from setup and structure to management and risks, especially if you operate across multiple geographies

### **Strategise:**

Be clear on what purpose ESOPs serve, and be transparent to the team

### **Start Early:**

Implement ESOPs at seed-stage or earlier (e.g. angel, friends/family)

### **Standardise First, Iterate**

#### **Later:**

4-years vesting + 1-year cliff

### **Vest More Frequently:**

Vest shares monthly

## 2. Include

### **ESOPs For All:**

Offer the whole team ESOPs, not just senior management

### **Make ESOP Strike Prices Accessible:**

Offer generous discounts or set a negligible strike price to make ESOPs affordable

### **Make ESOP Exercise Periods Accessible:**

Offer a longer exercise period to allow employees who leave to remain connected with the company

### **No Golden Handcuffs:**

Establish good leaver / bad leaver policies; be fair and transparent around them. Then, uphold good leaver policies, such as not dissolving employees vested options on departure.

### **Reward:**

Accelerate vesting upon liquidity events

### **Educate:**

Explain ESOPs to employees before they accept the job offer

### **Engage:**

Founders / senior leaders should do the explaining.

## 3. Scale

### **Grow:**

Plan to grow your ESOPs as you fundraise subsequent rounds

### **Educate:**

Explain ESOPs to employees before they accept the job offer

### **Engage:**

Founders / senior leaders should do the explaining

### **Manage:**

Figure out the right tools to manage ESOPs for your company - Excel might not be the best

### **Realisation:**

Consider introducing or facilitating a buyback or sale of ESOP

### **Conversation:**

Talk more about it - facilitate industry conversation

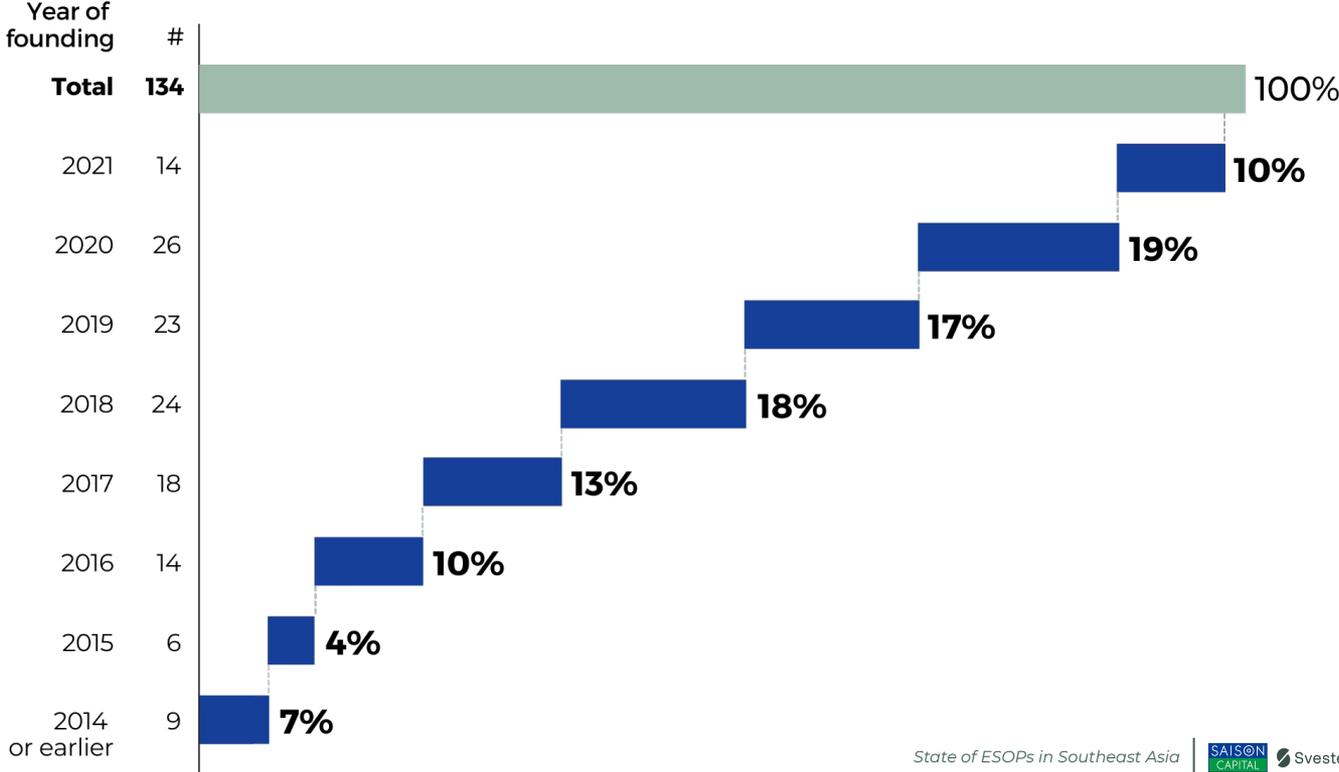
# Appendix

# Demographics of survey respondents: Vintage

A total of  
**134**  
Companies took  
part in the survey.

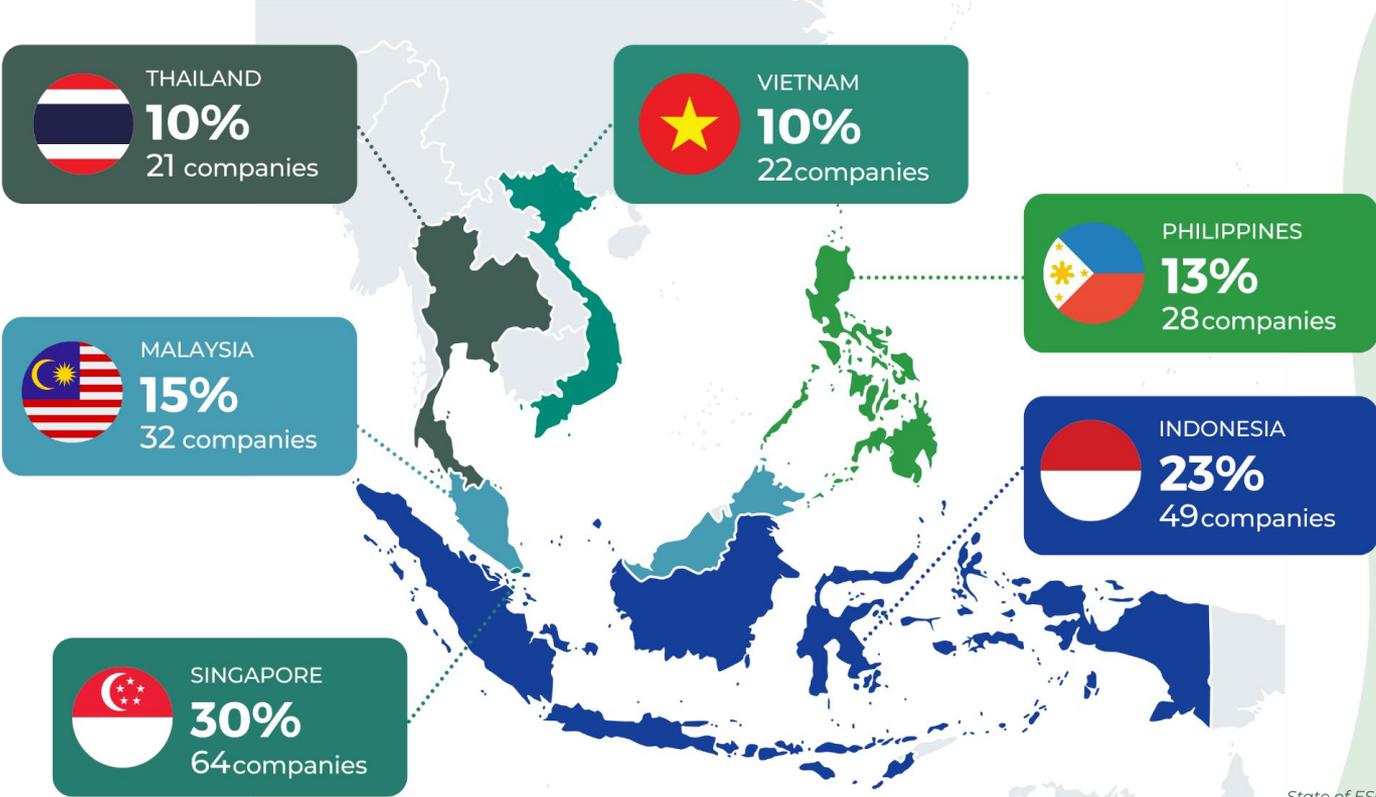


This table reflects the year the companies were founded:



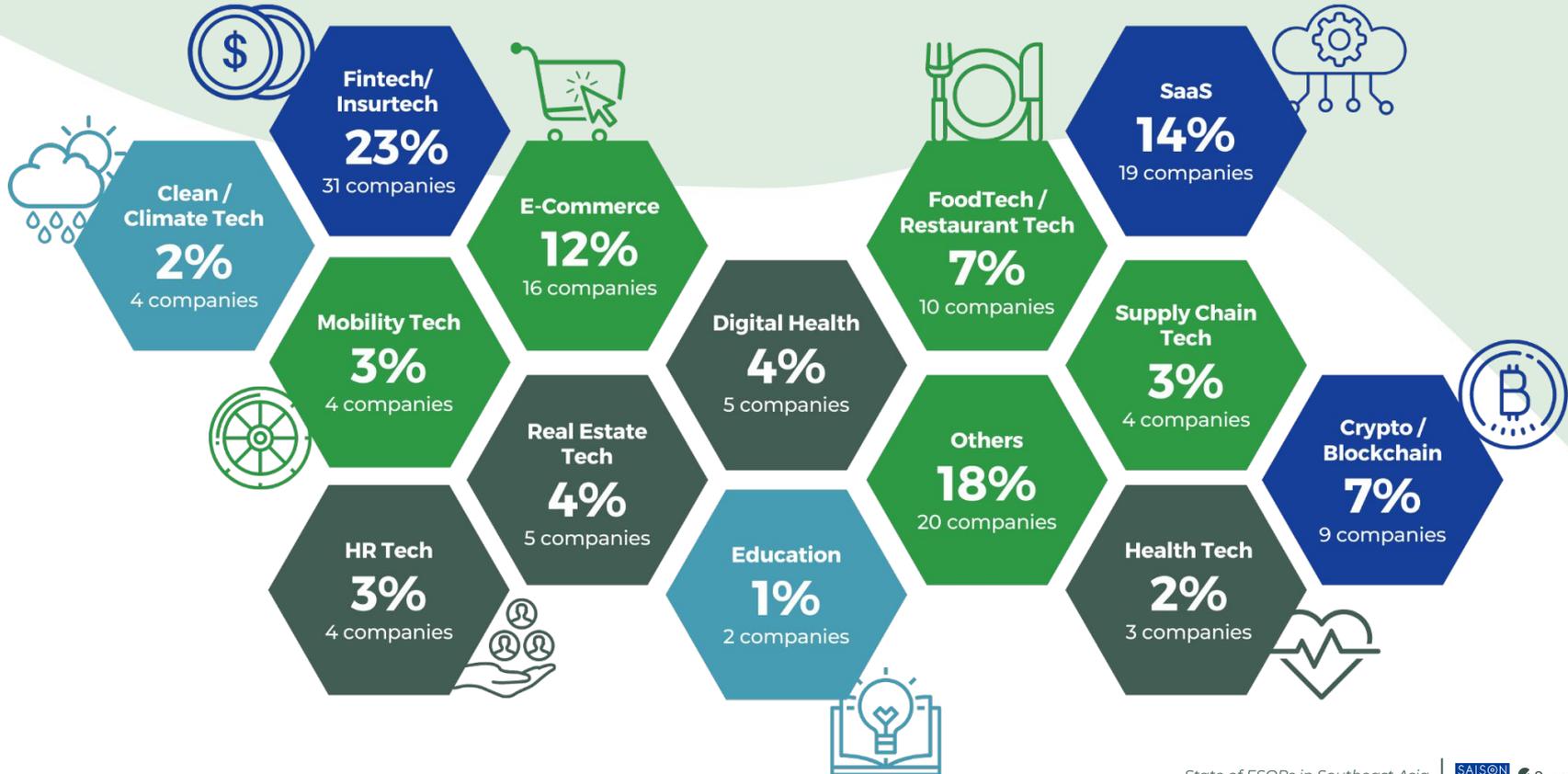
# Demographics of survey respondents: Geography

We asked founders “Which country is / countries are your primary market?”



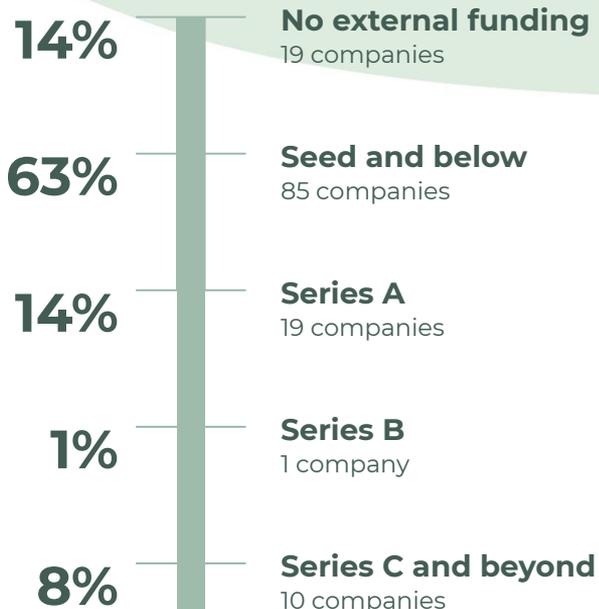
Founders were allowed to select multiple countries as their target markets.

# Demographics of survey respondents: Industries

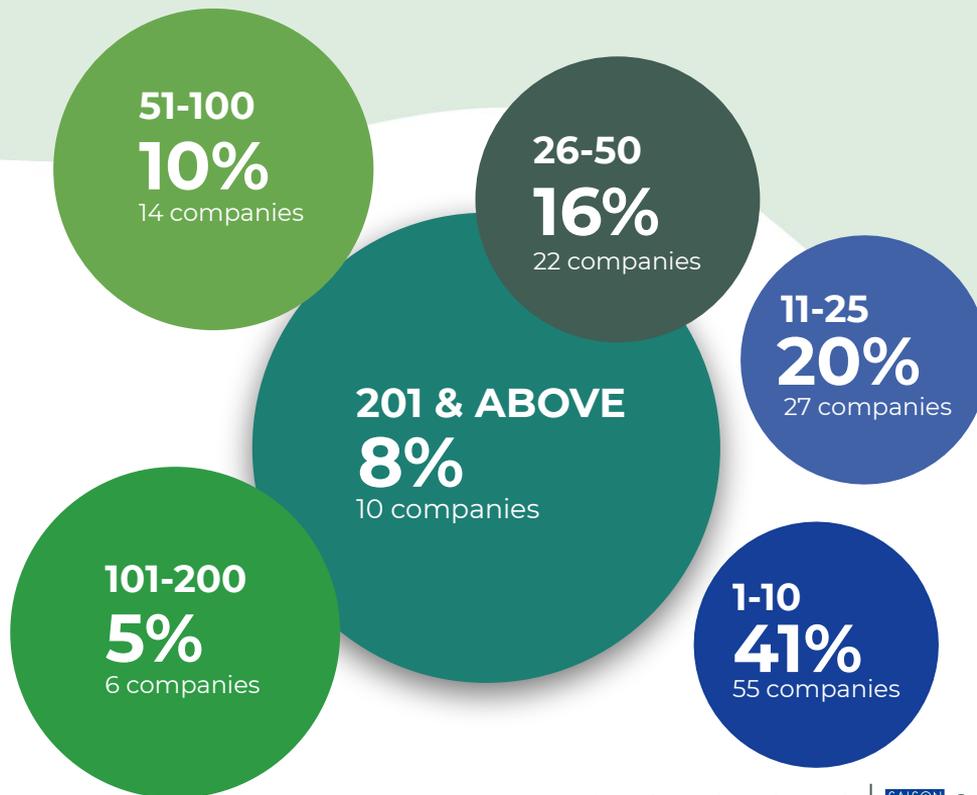


# Demographics of survey respondents: funding and team size

## Stage of funding:

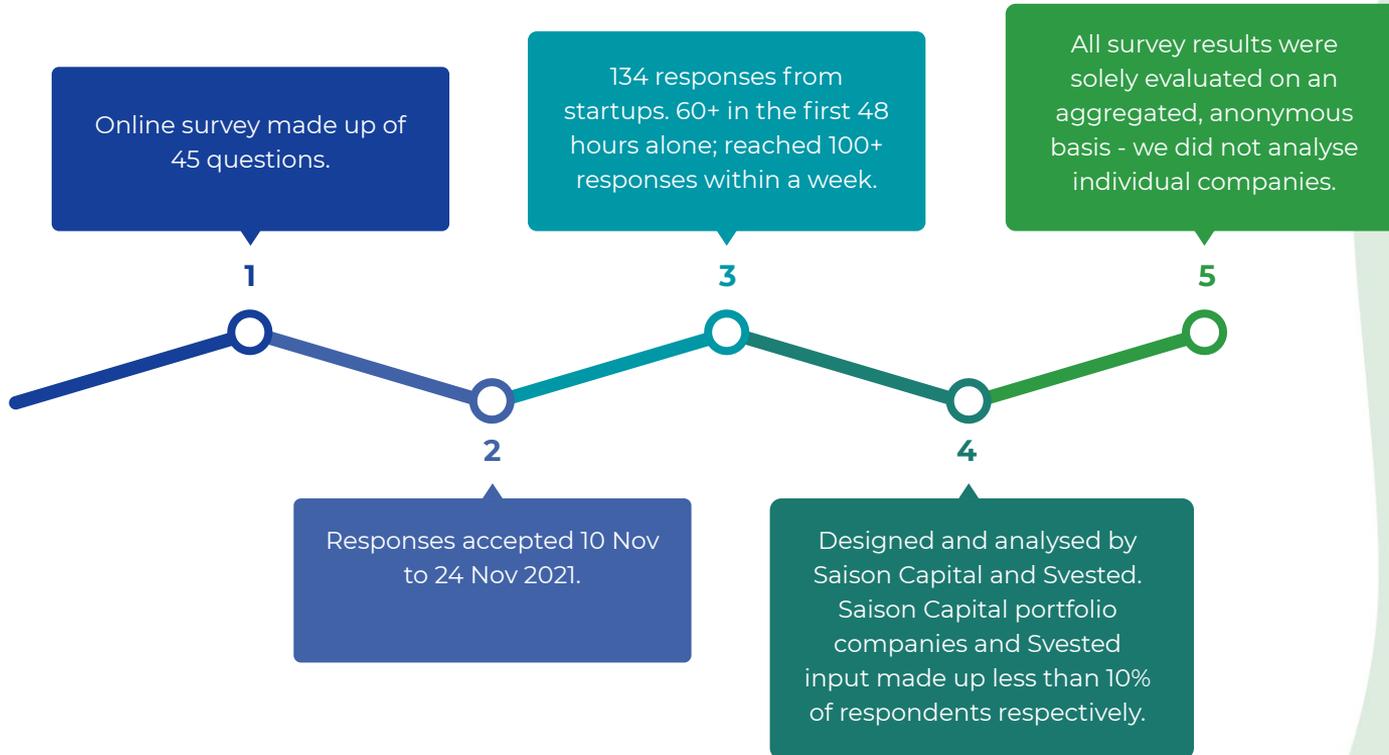


## Team size:



# Methodology

There are ~6,000 technology companies in Southeast Asia according to PitchBook  
A sample size of 134 companies translates to a 95% confidence level\* at a 10% margin of error.\*\*



\* Confidence level is the percentage of confidence that the target population would select an answer within a certain range.

\*\* Margin of error is a percentage that the survey results would reflect the views of the overall population.

# Glossary

<b>Buyback</b>	The process where the company may choose to buy back an employee's stock options before a liquidation event at a mutually agreeable price, so that employees can realise value.
<b>Cliff Period</b>	The lock-in period before employees are entitled to their vested stock options.
<b>ESOP</b>	Employee Stock Option Plan
<b>Exercise</b>	The process of converting a stock option to a share.
<b>Exercise / Strike Price</b>	The amount to be paid by the employee to convert a stock option to a share.
<b>Exercise Period</b>	The time period which the employee can convert the stock option to a share.

<b>Liquidity Event</b>	An event, usually involving an external party, where the valuation of the company is re-assessed and additional capital is injected into the company or to shareholders. Usual liquidation events include IPO or an acquisition / investment in which the incoming owner becomes a majority shareholder.
<b>Secondary Markets</b>	A market where employees sell stock options to other investors, rather than to the company (buyback).
<b>Stock Option</b>	A stock option gives employee the right, but not an obligation, to purchase shares in the company.
<b>Top Up</b>	Increasing the number of available stock options for current and future employees.
<b>Vesting</b>	The process where employees earn their stock options over time. Vested stock options refer to stock options that have been earned by the employee.
<b>Vesting period</b>	The time period for the awarded stock options to be distributed across.



# Thank you

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