

**KASVUFOORUMI**

# Rewarding options for Advisors

Kasvustrategia-hanke – Strategy and Board Initiative (SBI)


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# The Challenge

- Startups and growth companies need world-class experience to succeed
- Cash and resources are scarce

***What options are there to reward and commit external experts and when and how should they be used?***



# Motivations

## Advisor

- Learn
- Good will – Philanthropy
- Build networks
- Evaluate investment opportunities
- Improve resume
- Business opportunities
- Compensation potential

## Company

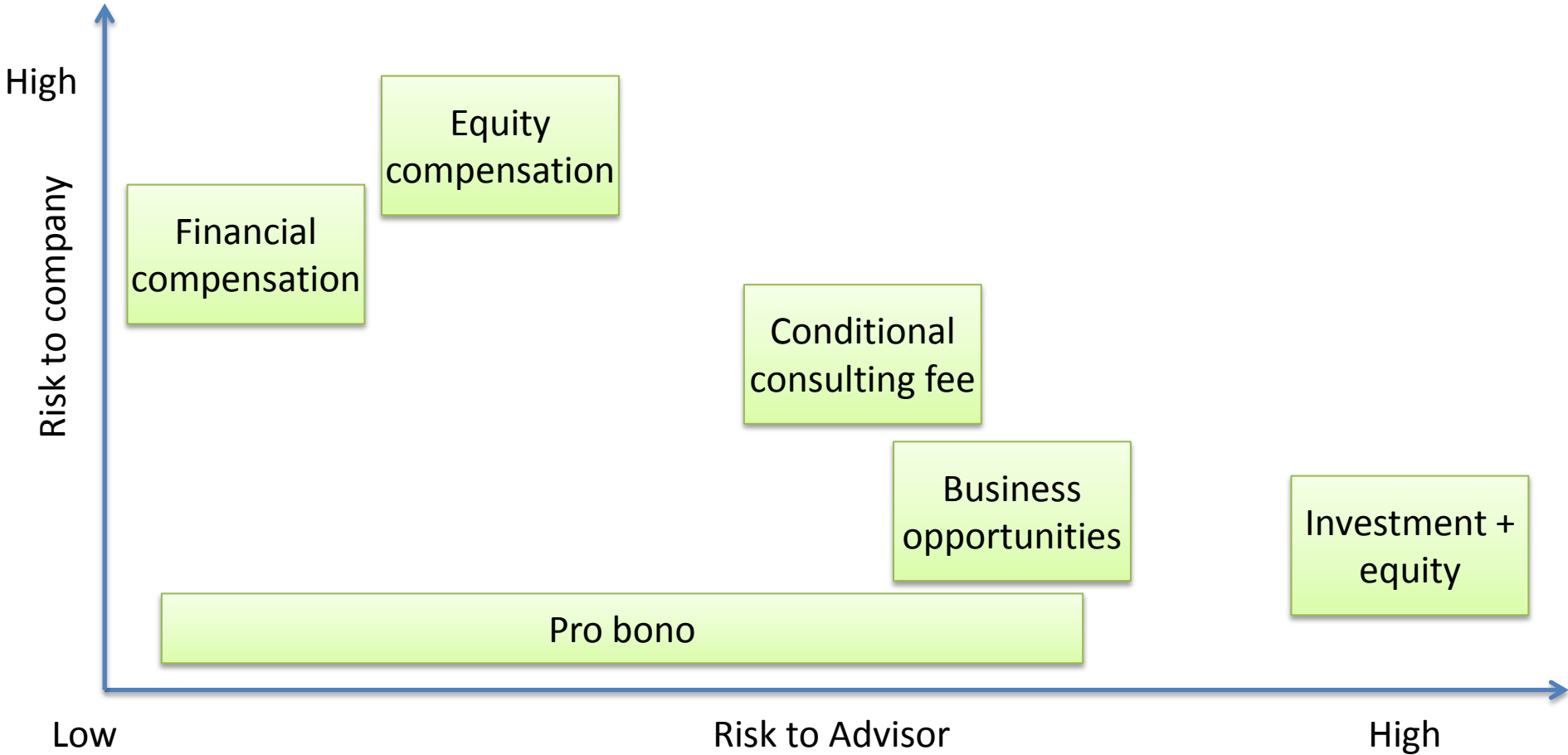
- Get access to experience
- “More hands on deck” actual work contributions
- Improve networks and contacts
- Improve credibility
- Attract investments

# Rewarding Options

- Pro bono
- Business opportunities
- Conditional consulting fee
- Equity compensation
- Investment + equity
- Financial compensation




# Compensation risks



# General guidelines

- Always agree on terms of cooperation:
  - Expectations
  - Duration
  - Scope
  - Compensation (when applicable)
- "Courtship before marriage"
  - Get to know each other with a smaller commitment first
- The need for external experience will evolve → plan for it

# Pro Bono

- Advisor contributes without financial compensation
  - Guidelines:
    - Discuss and understand motivations on both sides
    - Revisit expectations every six months
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# Business Opportunities


- Cooperation based on finding business opportunities later
- Examples:
  - Subcontracting work in projects (e.g., Tekes project)
  - Sales commissions or finder's fees
- Guidelines:
  - Agree on targets and timeframe
  - Agree on actions by both parties towards targets



# Equity Compensation

- Advisor is given equity in exchange of for contributions
- Guidelines:
  - Discuss equity rewarding principles with all shareholders → make a policy and allocate shares
  - Define vesting principles and tie them to contributions
  - Consider the stage of your company: equity is a scarce resource
  - Negotiate fair buy-back options


# Equity Compensation: Assessing the Value

- For the company, the value of contributions should be more than the dilution effect caused by allocated equity
  - For the Advisor, the current value of equity should be more than the “competitive market price” of contribution
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# Equity Compensation: Vesting Principles

- Tie equity contributions to
  - Objectives and/or
  - Time
- It is better to sell shares at nominal or fair price
  - Compensating for work directly will result in taxes
    - Personal income tax if done by an individual
    - VAT is done via a company

# Investment + Equity

- Advisor makes an investment and agrees to make additional contributions
  - Guidelines
    - Having equity creates a requirement to contribute
    - See guidelines on Equity
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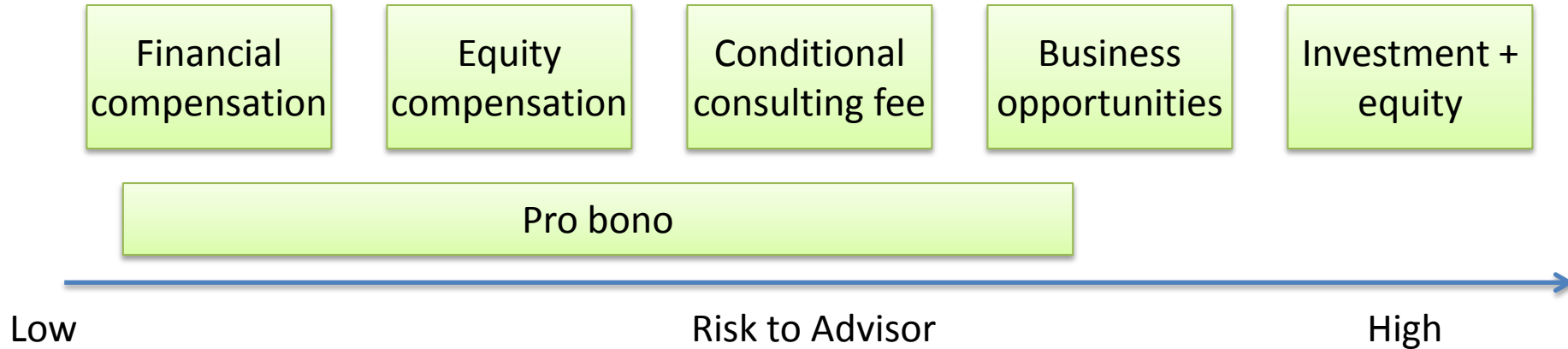
# Conditional Consulting Fee

- Advisor contributes based on a potential fee in the future, based on some conditions, e.g.:
  - When a milestone of a company has been reached (e.g., secured funding)
  - Completion of work
- Guidelines
  - Consider risk premium
  - Agree on conditions in writing
  - Agree on the process of how changes to agreed conditions can be made

# Financial Compensation

- Advisor is financially compensation for work
  - Monthly fee
    - flexible and low overhead
    - suitable for on-going work
    - Regular meetings and structured agenda
  - Task or objective-based compensation
    - Focused tasks
- Guidelines:
  - See general guidelines

# Compensation Risks: Advisor



# Compensation risks: Company

High

Risk to company

Equity  
compensation

Financial  
compensation

Conditional  
consulting fee

Business  
opportunities

Investment +  
equity

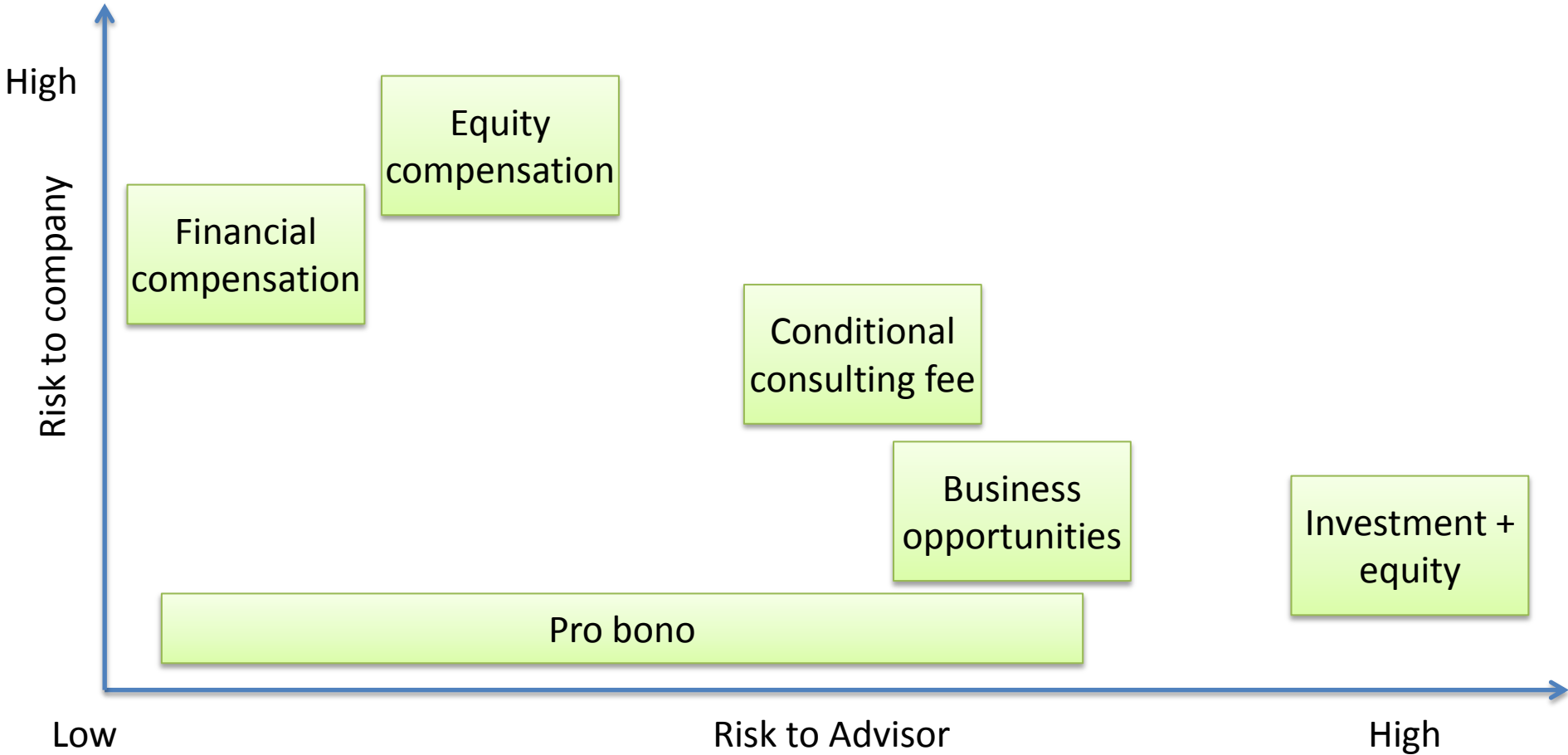
Pro bono

Low





# Compensation risks



# Summary

- There are many instruments available
- Consider
  - Your resources
  - Your risk taking ability
  - Advisor's motivation
  - Advisor's risk taking ability
- Combine a package that is a win-win deal for both
- Plan for the long term

