

How Much Equity to Give to Your Board Members and Why

Compensating board members with equity is a common practice in private companies, especially startups. Offering equity aligns board members' interests with the company's long-term success and incentivizes them to actively contribute to its growth. However, deciding how much equity to give requires careful consideration.

Why Offer Equity to Board Members?

1. Alignment of Interests

Equity compensation ensures board members have a vested interest in the company's success. This fosters a commitment to long-term value creation.

Example:

A fintech startup offered equity to its board, leading members to actively leverage their networks and expertise to secure strategic partnerships.

Best Practice:

Clearly communicate the value of equity and how it reflects the board member's role in the company's growth.

2. Attracting Top Talent

For early-stage companies with limited cash, equity can attract experienced professionals who may otherwise demand high cash compensation.

Example:

An early-stage SaaS company recruited a seasoned industry leader by offering a 0.5% equity stake, rather than a cash-heavy compensation package.

Best Practice:

Emphasize the potential upside of equity in discussions with prospective board members.

3. Rewarding High Impact

Equity compensation acknowledges the significant time, effort, and expertise board members contribute, even if the company isn't yet profitable.

Example:

A biotech startup allocated 1% equity to a board member who played a key role in navigating regulatory approvals.

Best Practice:

Tie equity grants to measurable contributions or milestones when possible.

How Much Equity Should You Offer?

Equity percentages vary based on the company's stage, the director's expertise, and the expected time commitment. Below are general benchmarks:

1. Early-Stage Startups

- Equity Range: 0.5%–2%
- Why: At this stage, the company needs hands-on guidance and is less likely to have cash for compensation.

Example:

A pre-revenue healthtech startup offered 1.5% equity to its first board member with extensive healthcare policy expertise.

2. Growth-Stage Companies

- Equity Range: 0.25%–1%
- Why: The company is more established, and the board's role often shifts to strategic oversight rather than operational involvement.

Example:

A scaling B2B SaaS firm granted 0.3% equity to a board member who provided key insights for entering international markets.

3. Late-Stage or Pre-IPO Companies

- Equity Range: 0.1%–0.25%
- Why: These companies attract seasoned board members who value prestige and established growth potential over equity stakes.

Example:

A pre-IPO agrotech company offered 0.2% equity to a board member with IPO experience.

Factors to Consider When Determining Equity**1. Role and Contribution**

- Key contributors or specialists may warrant higher equity.
- Evaluate how much time and expertise the board member will provide.

2. Time Commitment

- Full-time advisory roles or chairs often receive higher equity than part-time contributors.

3. Vesting Schedules

- Standard: 3–4 years with a 1-year cliff to ensure long-term commitment.
- Best Practice: Include a provision to reclaim unvested equity if the director leaves prematurely.

4. Dilution Impact

- Ensure equity grants don't overly dilute existing stakeholders.
- Regularly review and adjust equity offers as the company raises additional funding.

Structuring Equity Compensation

1. **Stock Options:**
Commonly used for flexibility and tax efficiency. Directors can purchase shares at a predetermined price.
2. **Restricted Stock Units (RSUs):**
Often granted by later-stage companies, RSUs are simpler and less risky than options since they don't require upfront payment.
3. **Advisory Shares:**
Reserved specifically for board members and advisors, these shares typically come with less governance power.

Communicating Equity to Board Members

Be transparent about:

- The valuation of the equity offered.
- Vesting schedules and potential dilution.
- The company's growth trajectory and exit strategy.

Example:

A startup founder explained how a proposed equity package of 0.5% could yield significant returns in a planned acquisition within five years.

Conclusion



Offering equity to board members is more than just compensation—it's an investment in your company's future. By carefully structuring equity grants, you can attract top talent, align interests, and drive strategic growth.

To learn more about board governance and equity structures, join our **1:1 coaching sessions** or attend our **Board-readiness Mastermind events**. Visit TheBoardDirector.com for expert resources and actionable insights to build a strong board.