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# ESOP Design Checklist

*A practical checklist for  
Founders and Boards  
to stress-test ESOP decisions*

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- This checklist is designed to support **ESOP design decisions**, whether you are setting up an ESOP for the **first time** or issuing **refresh / follow-on grants** under an existing plan.
- It focuses on the **design math** and **risk considerations** that apply at every grant stage - not just at policy creation.

## **1 Shareholder Math**

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*Test whether dilution is intentional and aligned with long-term shareholder value*

## **2 Employee Math**

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*Verify grant sizing, wealth intent and retention alignment*

## **3 Company Math**

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*Evaluate cost impact, P&L visibility and long-term sustainability*

## **4 Risk Mitigation**

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*Ensure the design holds up as the business evolves*

- Each question is intended to help founders, boards and leadership teams stress-test decisions, ensure key elements are not missed and create internal alignment before grants are approved. It can be used independently or shared with relevant teams for review and discussion.

*This checklist does not cover implementation or documentation decisions. Those are typically straightforward. What often gets missed are the design choices that shape dilution, cost, incentives and risk!*

# Shareholder Math

(Questions that test whether dilution is intentional and aligned with long-term shareholder value)



Design Area	Focus Area	Design Check	Response
ESOP Pool Size	Pool Horizon	<i>Is the ESOP pool sufficient for grants over the <b>next 18–24 months</b>, without needing top-up?</i>	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Future Hire Planning	<i>Have ESOPs for <b>planned strategic hires</b> been explicitly built into ESOP Pool sizing?</i>	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Over Dilution Check	<i>Has the ESOP pool been <b>back-tested</b> against the business plan and targeted employee wealth outcomes, to ensure shareholders are <b>NOT</b> diluting more than required?</i>	<input type="checkbox"/> Yes <input type="checkbox"/> No
Dilution Alignment	Dilution Bearer	<i>Is it clear whether full ESOP dilution will be borne by <b>existing shareholders or shared</b> with incoming investors (pre- or post-investment)?</i>	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Cap-table Reflection	<i>Has the cap table been adjusted to clearly reflect the ESOP pool and the dilution approach decided above?</i>	<input type="checkbox"/> Yes <input type="checkbox"/> No
Business Alignment	Capital Intensity	<i>Does the business require <b>frequent capital raises</b> and is expected future dilution reflected in ESOP pool sizing and grant strategy?</i>	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Shareholder Value Alignment	<i>Does the ESOP design prioritize long-term shareholder value creation, rather than being driven only by employee wealth creation?</i>	<input type="checkbox"/> Yes <input type="checkbox"/> No

# Employee Math

(Questions that test grant sizing, wealth intent and retention alignment)



Design Area	Focus Area	Design Check	Response
Eligibility	Key Roles	Are all current leadership and value-critical roles covered under the ESOP?	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Potential Future Leaders	Does the ESOP consciously recognize and incentivize <b>potential future leaders</b> within the organization (junior / middle-level employees), with a clear path to participation?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Grant Math	Target Wealth Outcome	Have we defined the <b>intended employee wealth</b> outcome for key roles over the business plan period?	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Grant Pattern	Is the choice between <b>big grants</b> and <b>annual boosts</b> a conscious design decision, with wealth outcomes evaluated differently for each approach?	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Business Plan Back-test	Has the grant approach been <b>back-tested</b> against the business plan, after factoring exercise price, vesting period and expected dilution?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Vesting Criteria	Vesting Objective	Is the vesting structure chosen based on what the ESOP is meant to achieve (retention, performance, or a combination)?	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Vesting Triggers	Where vesting is performance-linked, are the triggers defined clearly and objectively upfront?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Exercise Price	Exercise Price Choice	Have we consciously chosen an exercise price approach (whether face value or otherwise), rather than choosing the lowest exercise price by default?	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Future Constraints	Does the chosen exercise price create any constraints or <b>knock-on effects</b> for future ESOP grants?	<input type="checkbox"/> Yes <input type="checkbox"/> No

# Company Math

(Questions that test cost impact, P&L visibility and sustainability over time)



**Design Area**

**Focus Area**

**Design Check**

**Response**

**Cost Visibility**

Total grant cost

Is the **total accounting cost** of the ESOP grants being approved clearly known?

Yes  No

Year-wise impact

Is it known how the ESOP cost will be recognized year by year and how this **impacts reported profitability** (and EPS, where applicable)?

Yes  No

Recurring grant cost

Where the ESOP design involves annual boosts or recurring grants, is the **expected yearly charge** on account of future grants over the business plan period known?

Yes  No

**Downside Risk**

Cost rigidity

If business performance is weaker than planned, does the ESOP cost remain largely fixed (for example, under service-based vesting) and is this **downside exposure** clearly understood?

Yes  No

# Risk Mitigation

(Questions that test whether ESOP design remains flexible and robust as the business evolves)



Design Area	Focus Area	Design Check	Response
Strategic Events	Exit & Liquidity Scenarios	Does the ESOP program avoid being <b>overly prescriptive</b> for strategic events (IPO, acquisition, merger, secondary sale) and <b>retain flexibility</b> to respond at the time of the event?	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Board & Shareholder Discretion	Does the ESOP program provide sufficient <b>discretion to board / shareholders</b> to act in the best interest of the company and employees during strategic events?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Lifecycle Events	Lifecycle Events Coverage	Does the ESOP design clearly address key employee lifecycle events (resignation, termination, death, disability, retirement, competition)?	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Cap Table Management	For private companies, does the ESOP design consciously manage <b>cap table complexity</b> (for example, limiting excessive individual employee shareholders where possible)?	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Pre- and Post-IPO Treatment	Where relevant, are ESOP rules clearly defined for both pre-IPO and post-IPO scenarios?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Structural Flexibility	Plan Flexibility	Does the ESOP plan <b>allow adjustments</b> to grants, vesting or eligibility as the business needs change?	<input type="checkbox"/> Yes <input type="checkbox"/> No
	Grant Control	Does the board have clear authority to approve, modify, defer or withhold ESOP grants?	<input type="checkbox"/> Yes <input type="checkbox"/> No

## **Disclaimers**

*This material has been prepared solely for general informational purposes and is intended to facilitate discussion around ESOP design considerations. It does not constitute and should not be construed as, legal, tax, accounting, valuation, investment or other professional advice. The contents of this checklist are not a substitute for advice tailored to the specific facts and circumstances of any individual or entity.*

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*This checklist intentionally excludes implementation-related matters, including legal documentation, approvals, filings and execution mechanics. Users are encouraged to seek appropriate professional advice before making any ESOP-related decisions.*

