

The  
McFarland  
Group



# Preparing for Success

The Equity Compensation  
Assessment

# Why Equity Compensation?

Business owners implement equity compensation plans to attract and retain top talent, align employees' interests with company success, incentivize exceptional performance, conserve cash flow, enhance company valuation, and drive long-term growth.



## A Comprehensive Assessment

The following content serves as an assessment of a business's readiness to optimize the benefits of an equity compensation plan. This assessment covers three key categories: compelling vision to share, ability to keep score at both the individual and entity levels, and culture.

By assessing the readiness of a business in these key areas, the equity compensation assessment helps owners identify areas of strength and areas for improvement, enabling them to maximize the value and effectiveness of their equity compensation plans.

In the compelling vision category, we will evaluate your ability to tell a compelling story about your growth plan, how you hold yourselves accountable to outcomes, your exit plan's clarity,

expected timeline, and the level of understanding regarding the desired outcome. Additionally, we will assess your financial independence number, which represents your long-term sustainability goals.

The second category, ability to keep score, examines your business value measurement and individual performance tracking capabilities. Finally, in the culture category, we will evaluate your business architecture stack, including values, purpose, and mission alignment, as well as your compensation determination methods and transparency of business results to the senior leadership team. By assessing these areas, we can determine your readiness to optimize the benefits of an equity compensation plan.



# Assessment Questionnaire

**Company Name:**

Score Legend 1 - No plan or action 2 - Some work has been done 3 - Ready to go



## Compelling Vision

- 1. Growth Plan and Accountability:** Developing a compelling growth plan and establishing mechanisms for accountability ensures that the business has a clear direction and strategy for achieving its goals. It helps align the efforts of employees, tracks progress, and holds the business accountable for outcomes, fostering a results-oriented culture.

**Company Score:**

- 2. Exit Plan and Clarity:** A well-defined exit plan with clear steps, milestones, and a timeline is essential for long-term planning and strategic decision-making. It provides clarity on the desired outcome and ensures that the business is prepared for potential events such as acquisitions, mergers, or succession planning.

**Company Score:**



- 3. **Financial Independence Number:** Determining the financial resources the business owner would need from the sale of the business to achieve their financial goals is crucial. Calculating the financial independence number helps identify the specific monetary targets required for long-term financial security and independence. It allows the business owner to assess the feasibility of their desired lifestyle, retirement plans, or other financial aspirations based on the anticipated proceeds from the sale of the business. By understanding their financial needs and setting clear financial metrics, the business owner can make informed decisions to optimize the benefits of an equity compensation plan and work towards realizing their financial goals.

**Company Score:**

- 4. **Business Continuity:** Having a plan in place for business continuity addresses the unexpected events of a shareholder's death or incapacitation. It ensures the orderly disposition of the shareholder's ownership and addresses the resolution of all business liabilities, protecting the interests of both the shareholders and the business's long-term viability.

**Company Score:**





## Ability to Keep Score

- 5. Business Value:** Measuring the value of the business using appropriate valuation techniques and methodologies creates a scoreboard for the equity compensation plan. It allows participants to track and assess their progress, providing a clear indication of whether they and the company are winning. Understanding the business's value in this context enables participants to gauge the potential benefits of their equity compensation and align their efforts accordingly. It fosters transparency, motivation, and a sense of shared success among participants.

**Company score:**

- 6. Individual Performance Measurement:** Having effective systems in place to measure individual performance aligned with the overall goals of the organization is crucial, especially when performance-based equity compensation systems are utilized. These systems rely on measuring individual performance to determine the level of award or trigger vesting of equity grants. Accurate and fair measurement of individual performance ensures that participants are appropriately rewarded for their contributions and aligns incentives with desired outcomes. It helps foster a performance-driven culture and ensures that equity compensation is distributed in a manner that reflects individual achievements and organizational success.

**Company Score:**



## Culture

- 7. Business Architecture Stack:** The business's values, purpose, and mission form the cornerstone of its culture and operations. Well-defined and integrated into the organization, they provide a clear direction and framework for decision-making. This is particularly important for equity compensation plans, as many of them include award determination criteria tied to core values. A strong business architecture stack helps align employees around common values, reinforces the desired culture, and guides the implementation of an effective equity compensation plan.

**Company Score:**

- 8. Compensation Determination:** Determining fair and competitive compensation is vital, especially when considering equity compensation plans. It helps ensure that the plan adequately addresses any existing compensation shortfalls. By utilizing industry benchmarks or studies, businesses can assess their compensation practices and make informed decisions. This approach helps align compensation with market standards, attract and retain top talent, and provide a fair and competitive compensation package that complements the equity compensation plan.

**Company Score:**





- 9. **Transparency of Business Results:** The business value serves as a key method of measuring performance and determining the effectiveness of the equity compensation plan. For this reason, transparency is essential. Providing a level of transparency in sharing financial and operational results with the senior leadership team ensures that decision-makers have a comprehensive understanding of the business's performance. Transparent reporting facilitates strategic planning, helps identify areas for improvement, and fosters informed decision-making. By fostering transparency, businesses can align leadership, motivate employees, and optimize the benefits of the equity compensation plan.

**Company Score:**



**Observations**