Cash vs. Equity

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Cash vs. Equity

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It has become common practice in the tech industry, both at startups and large companies, to grant some form of equity to employees. And compared to cash, equity may much better align the interests of employees with the long-term interests of the company—or at least that is its intention. For earlier-stage employees, equity is a much riskier form of compensation because of the wide variance in eventual value—an employee's shares in the company (not to mention those of the founders and investors) could end up being worth nothing, or hundreds of millions of dollars or more. Equity compensation is a notoriously complex subject. (For a deep, practical dive into the complexities of equity compensation, see The Holloway Guide to Equity Compensation.)

Candidates can have very different needs and preferences when it comes to cash and equity. Cash has a guaranteed value (setting aside changes like inflation), while equity can end up being worth a lot more or less than anyone's best guess. Cash is a commodity; equity in a company is not.

A candidate's response to equity vs. cash may stem from their risk preference. But often, it comes down to practical necessities. Founders may feel that a candidate unwilling to sacrifice cash for equity doesn't believe in the company, when in fact, differing financial and familial situations may determine candidate response. For example, a candidate who has a family to provide for, or obligations like student debt to repay or mortgages to maintain, may be unable to sacrifice a guaranteed salary, even if they are passionate about your company's mission. Companies do well to foster sensitivity to this reality in their candidate pool.

Ideally, the candidate's position on cash vs. equity will align with what your company can offer. A candidate that really needs more take-home pay might not be a good fit for an early-stage startup that can only afford to offer—or prefers to offer—partial ownership in the company instead. If you have flexibility, one technique you can use is to offer candidates the ability to "trade cash and equity" by letting them choose between a low equity/high cash or high equity/low cash offer, depending on their cash needs and risk appetite. Matt Mochary's book, *The Great CEO Within*, recommends offering the amount of cash a candidate would need to live comfortably, finding what an all-cash offer might look like at a large company, and then bridging the difference in equity.

Mapping Compensation to Job Levels

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> "*Where I have seen most companies get this wrong is that they do not extend their leveling system into the hiring process, or they do not have compensation tied directly to leveling. Missing either of these leaves huge loopholes in any system.*"
>
> — Marco Rogers, veteran engineering manager*

Compensation is a complex subject rife with potential pitfalls. It's important to develop a compensation philosophy and explore various strategies when building a compensation plan for new hires. Even if you work for a large company with an established compensation plan, you still may gain from reading through these strategies for mapping levels to compensation, as it will help you better understand your company's and candidates' perspectives, and will better prepare you to communicate with candidates about compensation§.

> "*The best use of money as a motivator is to pay people enough to take the issue of money off the table.*"
>
> — Daniel Pink, bestselling author*

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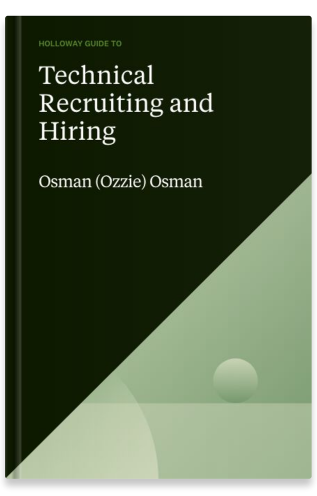

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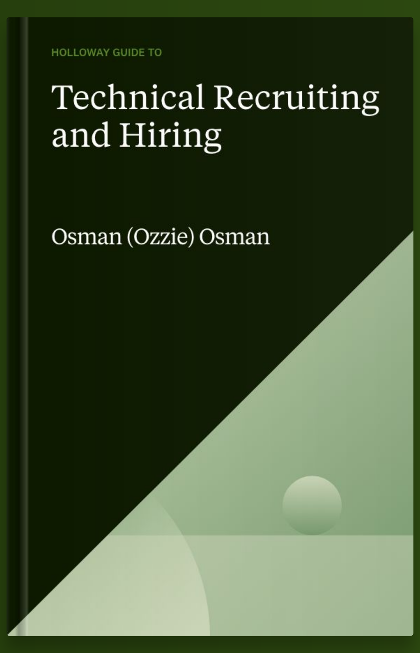

Technical Recruiting and Hiring

by **OSMAN (OZZIE) OSMAN**

A practical, expert-reviewed guide to growing software engineering teams effectively, written by and for hiring managers, recruiters, interviewers, and candidates.