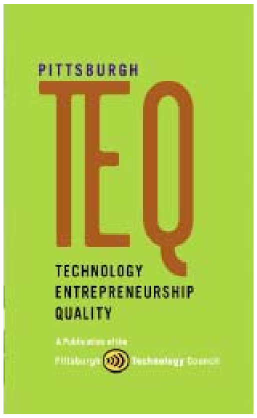

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CEO Candidates Negotiate for Equity, Not Fat Paychecks

by Jack Roseman, Contributing Columnist

I don't know if it's a result of the average age of entrepreneurs in the region dropping or if it's just a sign of entrepreneurs here getting more savvy, but we're beginning to see an interesting phenomenon: The people who start some of our most promising companies are not always the people who end up running them - even in their earliest stages.

And even if this doesn't happen in the early stages, it's not unusual for entrepreneurs to turn the reins over to professional managers at some stage. This is especially true if it's their first company.

Why is that? For one, starting a company requires a good idea and a little capital. And not everybody who has a good idea and a little capital also has the skills to manage people, the vision to keep the company off the rocks, and the experience to keep it pointed with the wind.

A good CEO is a remarkable thing. He or she is a wily deal-maker, a tough negotiator, an enthusiastic leader. They are smart, yet they know when to trust their gut. And they are also flexible enough to know when to get pride out of the way and make room for a good idea from somebody else. In fact, a good leader welcomes and values ideas from others.

Now this is not an exhaustive list. You want even more from a CEO, but that's another column. I want to make the point that good CEOs willing to take on a startup in Pittsburgh aren't growing on trees. And so when you find one who seems to have the right stuff and that person is willing to take the reins of your company, it's easy to be intimidated into picking the wrong person.

So what makes that person wrong? They could be all talk and no execution. They could lack a contact network. They could even lack a track record. But you can usually find these things out with some background checking. The thing that is harder to determine and yet the most important quality you want in your CEO is a commitment to your dream. You want them to buy into your vision and the best way to know whether they truly have or not is when you begin to negotiate salary and equity.

I once interviewed someone for a CEO position at an early-stage company and this person wanted $250,000 plus a bonus. For a startup, that's a lot of money. But more importantly, it told me her emphasis was in the wrong place. What she should have been negotiating for was more equity. We were offering 5 percent, which is pretty standard for the CEO of a startup. At that rate, if she can take that company to $200 million in valuation in three years, she's now worth $10 million. And if there's one person who is responsible to

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get the company to that level it would be the CEO.

So if you're good and the company's technology is good - and you have certainly investigated the company and you must think its technology is good if you want the CEO job - then why would you quibble over salary? What's the difference if it's $100,000 or $300,000 if you actually believe you can take this company to where the entrepreneur thinks it could go? You could work for nothing.

Now you say that it's a marketplace issue. That you could take an equally promising technology to that level at another company and still pull down $250,000 while you were doing it. And I would say if another company is willing to pay you $250,000 a year and you believe in their technology too, then you should go with that company. You should not come with me. You've got a better deal.

Now in reality I don't expect a CEO to work for nothing, but I do need to feel confident that they are buying into my vision for this company and not a fat paycheck. And the formula I use for that is to ask how much money they need to put food on the table. By that I mean to pay the bills, maintain their lifestyle, and if they have a spouse, to keep their spouse happy. But anything beyond that is just a trinket, compared to the wealth they can create for themselves by growing my company.

What they should be arguing is, "Don't give me five percent, give me six percent. Give me seven percent, and I'll take no salary." If they want the big paycheck, I'm beginning to wonder if I've got the right person and if this person really believes they can take my company to the level they say.

Jack Roseman is the Director of The Roseman Institute. He was the founder of two successful computer firms and was president of a third, On-Line Systems. Jack formerly was the associate director of the Donald H. Jones Center for Entrepreneurship at Carnegie Mellon University's Graduate School of Industrial Administration (GSIA). This column was written with Steven N. Czetli, former Executive Editor of T.E.Q.