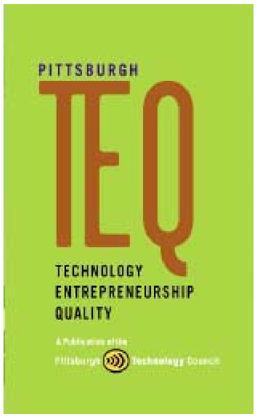

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When Startup Hires a CEO, Keep Salary Down, Employment Contract Short-Term

by Jack Roseman, Contributing Columnist

Last month, I argued that the most important quality you want in a CEO is belief in and commitment to your dream. And I suggested that one way to determine whether a candidate has it is by their interest in equity versus salary.

There is another reason for the CEO of a startup not to take a large salary. It's an operational reason. It sets a bad example when the CEO is salary heavy.

At Actronics, my last company, I was the lowest paid person next to the secretary. That's a fact. I did that for a couple of reasons. When money was tight and someone said to me they wanted a raise, I could honestly say, "I make $20,000 a year. How much do you make?" And unless it was that secretary, they were already making more than me. And when I was interviewing someone and they said they wanted $100,000, I would tell them I made $20,000. That kept things in perspective. Maybe $20,000 was too low, but you understand what I was trying to accomplish.

Salary expectations start with the CEO. How much you pay him or her is important. You don't want people working for you exclusively for a salary. And if you buy them with a big salary, how will you ever know what their real motivation is for being there? How will you know if they believe in your dream?

(On the other hand, when you move out of the start-up phase and money becomes available, when you are off and running, I think you should pay a little above what the market demands. Hire at the 90th percentile and pay accordingly.)

And that goes for whatever else you have to do to get a CEO or any other valued employee to join you. See, I think I can sell - but what I don't want to do is sell you on this job so well that you couldn't say no to it. So how do I test if you really want the job? If I have to give you a big salary, did you really buy into my dream? How do I know that? For the right salary, you'd join me even if there was no pot of gold at the exit.

And too, it's a great way to test the concept behind your business. If I talk to enough smart people who I respect, and they are willing to take cuts in pay to come with me, that confirms to me that I might be onto something.

Another way to judge a CEO candidate is whether they insist on a contract. I'm tough on that. If you're a CEO, you have to have a lot of confidence that you can get the job done. You worry me if you say, 'I can get the job done, but give me a 10-year contract.' If you're as good as you say you are, there ought to be people waiting in line to hire you if things don't work out with us.

So why do you need a multi-year contract? And how does that look to the employees?

The fact is that most CEOs get six months to a year. Their argument is that it would take that long for them to find a job that they really might want. And I buy that.

Negotiating skill is another essential for the CEO. A CEO's skill at negotiating is revealed during the hiring process. If they can't negotiate effectively on their own behalf, do you really want them out there negotiating term sheets and giving away chunks of your company to venture capitalists? I expect them to negotiate tough and smart.

One quality that has always been important in a top executive is experience in the space you want to operate in. To raise money you need a track record. When you go to VCs, it's important that they feel comfortable that the CEO of the start-up company can do the job. If you don't have a track record, you are well advised to hire someone who does. Someone who can give you credibility. It's extremely important that the CEO knows the space you are operating in.

That's especially true if you are growing an Internet company. The name of the game in the Internet field is to get bigger fast; dominate your space fast; create a household name that is trusted. The way you do that is knowing people with whom you can form strategic alliances - people who can expand your space. So you have to ask the CEO prospect: "Do you have a network of contacts? Can you bring strategic alliances?"

The paradigm on the Internet is you better run like hell now. You don't have time to sit back and slowly bootstrap. And you don't have to because if you have a great idea, there's a lot of money out there to help execute it.

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.