Negotiating CEO Compensation – Some Do’s and Dont’s from 3 Decades on the Firing Line

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When Ken Ross asked me to share some thoughts on this topic with the members of Expert CEO, I was pleased to agree. Most executives only go through this process a couple of times in their career. I went through this exercise hundreds of times, and have always been amazed at how often it was done badly, both on the client and on the candidate side. It doesn’t have to be that way. By following a few simple guidelines, the process can normally be concluded quickly, satisfactorily, and relatively stress free for both sides.

We’ve all seen Chester Karass’s quote countless times in airline magazines, “You don’t get what you deserve, you get what you negotiate!” So to turn this around – How can you negotiate what you deserve?

I am assuming as a starting point that you and the client have concluded that you are right for the position. Until that happens not much negotiation can occur. Once you get to that point here are a few key suggestions:

1. Get knowledgeable
2. Determine what you need, what you want, and the difference
3. Seek advice and listen to it
4. Avoid distractions and peripheral issues
5. Take the long term view
6. Look for a win-win outcome

Get Knowledgeable

Most CEO compensation packages are set initially and reviewed annually against industry and competitive comparables. The more you understand these, the more leverage you have. The closer you tailor your requests to what is standard, normally the easier it is for a Board to agree. Facts are difficult to dispute, so a useful starting point can be what the previous incumbent received, but often a better one is what the most recent hire for a target competitor received. For public companies this information is fairly well disclosed in the proxy. For private companies it may take a little digging, but it can be learned. If an executive recruiter is involved they should have this information readily available. In most cases you are probably safe in assuming that the prior incumbent’s package represents the lower limit, and the top player in the sector represents the upper limit of what you can achieve.
What do you need, what do you want, and what’s the difference?

I once had a candidate tell me “I need to make $100 Million within three years” I asked him where that came from and he freely admitted that he just made it up; but he was very stubborn about it, and wanted it virtually guaranteed. This wasn’t a need, it was a want, and a pretty unrealistic one at that, given his past history. He never got beyond this, killing a deal that ironically would probably have gotten him to this level in about that amount of time if he had been more willing to take some risk. I doubt that he ever saw as good a deal again and likely will never reach this goal. Among other things he was confused by want versus need!

In any negotiation there will be a number of key points, sometimes as many as 10, but people often get hung up on the “big 3” of salary, bonus, and equity; as they are the ones that get the most scrutiny and tend to be where Boards are the most concerned about “optics”. In most cases the equity component is the easiest to push of these, particularly if you are willing to accept industry standards on salary and bonus.

But you can often push one or two of the other components beyond the initial proposed levels, but generally not all of them. An enormous amount of value can be gained via other items such as relocation, medical plans, retirement plans, termination agreements, etc. This is where you need to do good calculations, decide what is critical, and what is merely desirable. Put all your effort behind negotiating the one or two items that mean the most to you, and be willing to accept what is offered on the others.

Get good advice and listen to it.

Normally the recruiter is the best source for advice on package components, but often your attorney, other CEOs, compensation consultants and other experts can be helpful. If the client is using outside help, make sure you get some too. In general I find that the more expertise and experience involved the better, or at least the more fair the outcome. If someone who should know tells you that a certain amount or provision is all you can get, or that one of your demands is unreasonable, you ignore that advice at your peril!

Avoid distractions and peripheral issues.

Is being Chairman of the Board more important to you than money?
Is an extra year of severance protection the issue you will lose a position over?
Is an extra $25K-$50K of salary or guaranteed bonus a make or break issue for you?

When negotiations hang up on one issue and everything else is acceptable it is normally because of ego and emotion. If you sense this is the case, try to find another place to make up for it or just let it go! This is particularly important if the issue is a “flash point” for the company, usually due to some past history. Once anger and emotion enter a negotiation the likelihood of a good outcome goes down quickly and dramatically.
Some years ago I had successfully concluded a very difficult negotiation involving the relocation of a CEO from Boston to Silicon Valley. The extremely lucrative deal was done, documented, and ready for signature, when at the very last moment the candidate told the Chairman “Oh by the way I have a 50 foot sailboat, 7 vintage cars, and a 10,000 bottle wine cellar that needs to be moved.” The client was furious at what he perceived to be bad faith and “sequential negotiation” and withdrew the offer. This could have been easily avoided if the candidate had raised these issues earlier in the discussion. Last minute surprises, or additional requests after a negotiation is concluded are never a good idea.

**Take the long term view**

This advice actually applies to both client and candidate. When negotiations drag I have often asked both sides the question “Will this issue be important in 3 years?” If the answer is no I usually advise them both to find a solution that resolves the issue over that period. Is the salary too low? Let’s agree on a 3 year series of guaranteed annual increases. Is the severance an issue? Then let’s start it at what the candidate wants for the first year, but ramp it down to what the company feels is appropriate by the end of the third.

Sometimes in a half joking manner I have told both sides “If this is successful, in 3 years this issue wont matter; and if this is unsuccessful, in 3 years this issue wont matter!” Most of the time there is a lot of truth in this.

One final point that is sometimes overlooked by new CEOs, is that once the negotiation is over you need to run the company. If there is anything out of line you did in the negotiation, or anything in your package that is excessive, unusual, or controversial it will likely cause problems for you in recruiting, managing your team or dealing with shareholders. If you don’t want to keep explaining why you got this when others didn’t, my experience says leave it out.

**Look for a win-win solution**

A compensation negotiation between a CEO and a company is not like a real estate transaction, a lawsuit, or buying a car. After it is over both sides need to work together to run and grow the company. Each step needs to be conducted by both sides with that in mind. So my final pieces of advice would be the following:

- Let the other side win something that is more important to them than it is to you.
- Take a little less than you could.
- Take your biggest upside where everybody wins!

These negotiations can be stressful; but if done with knowledge, with help, with a good spirit, and with the sense that a win-win outcome is possible, they can be concluded quickly and positively for all concerned.