

Reprinted from THE WALL STREET JOURNAL.

MONDAY, APRIL 11, 2005

Copyright (c) 2005, Dow Jones & Company, Inc.

CEO Compensation Survey (A Special Report)

Founder's Fee: You started the company; You still run it; Now the tough question: How much should you be paid?

By PHYLIS PLITCH

AS ENTREPRENEURS who founded their own companies, Marc Benioff and Robert Toll probably have a lot in common.

Just not their paychecks.

Mr. Benioff, founder and chief executive of the San Francisco software company salesforce.com Inc., takes home \$10 a year in pay. Mr. Toll, co-founder, chief executive and chairman of home builder Toll Brothers Inc., of Horsham, Pa., collected a salary of \$1.3 million last year and a bonus of 655,932 shares worth \$30.4 million -- a sum that would have been higher if he and the board hadn't opted to rejigger his compensation formula.

The contrast highlights a striking diversity in thinking about how founders of publicly traded companies should be paid when they keep a hand in running the business. Overall, founders generally get less than do executives who didn't start a company -- in part, no doubt, because they have an enormous amount of stock. But beyond that, there is little agreement on how much to pay a founder. Some get a lot, some get nothing. Some get stock options, some get cash. Some get both, some get neither.

"They go to either end of the spectrum," says Alan Johnson, managing director of Johnson Associates, a New York compensation-consulting firm. "They are founders and pay themselves a lot, or they are founders and pay themselves next to nothing."

According to data compiled by Mercer Human Resource Consulting in New York on top executives at 350 major companies with revenue in excess of \$1 billion, founding CEOs in 2003 earned median overall compensation of \$2.7 million, compared with \$6.4 million for nonfounders. In terms of salary, the median paycheck for CEO founders was \$450,000 -- less than half the \$952,000 taken home by nonfounding CEOs.

Long-term incentives, generally equity, tell the same story: CEOs who founded their companies were awarded long-term incentives with a median value of \$1.4 million, compared with \$3.75 million for nonfounding CEOs.

"If you look over a large group of them, you end up with below-market packages," says Ira Kay, national director of compensation consulting at New York-based Watson Wyatt Worldwide. "They've already done well through stock ownership and don't need as much additional motivation as a nonfounder CEO."

Officials at Toll Brothers, including Robert Toll, say his large payout came about after shareholders approved a package closely tying his compensation to performance. Mr. Toll says he and the board mutually agreed to scale back his compensation for the fiscal year ended Oct. 31, 2004, reflecting the company's sensitivity to shareholder value. As of January, according to the company's latest proxy statement, Mr. Toll owned roughly 16.2 million shares, a 20% stake, valued at about \$1.3 billion based on the current stock price.

As a best practice, companies should base the amounts of compensation packages on the value the executives bring -- not on whether they have sizable stakes, says Russell Miller, a principal at Mercer in New York. The knowledge founders bring should be a plus, he adds. "Why penalize the founder or discount the founder's pay because of his historic ownership?"

Yet enough disparity exists -- sometimes even within the same industry -- that it is clear no consensus exists on the best way to compensate founding CEOs. Three cases in the software industry help make the point.

Bill Gates, co-founder, chairman and chief software architect of the biggest software company in the world, receives a salary and bonus, although as of the company's September proxy he

owned a 10.1% stake in Microsoft Corp. currently valued at roughly \$27 billion. In the fiscal year ended June 30, 2004, Mr. Gates received a salary of \$591,667 and a bonus of \$310,000. He doesn't take part in the company's equity program. His compensation was considerably below average for a top executive in his industry. But then it's difficult to think of a compensation plan that would give Mr. Gates incentive to work harder.

A Microsoft spokeswoman declines to comment, except to point to statements in the company proxy that Mr. Gates's salary is below competitive levels and that his personal wealth is tied directly to increases in the company's value.

Oracle Corp. founder and CEO Larry Ellison, on the other hand, took no salary, bonus or stock compensation in fiscal years 2002 and 2003. But for the fiscal year ended in May 2004, Mr. Ellison collected a salary of \$675,000; a bonus of about \$3.2 million; and 900,000 stock options, with a potential value of just over \$18 million, assuming a 10% annual appreciation over the 10-year term of the options. For the current fiscal year, Mr. Ellison's salary rose to \$1 million, and on Aug. 27 he received 2.5 million options. As of the company's September proxy, Mr. Ellison held roughly 1.33 billion shares of Oracle, more than a quarter of the outstanding stock, currently valued at about \$16 billion.

Mr. Ellison declines to comment on his compensation, as does an Oracle spokesman. But in the company's latest proxy, filed in September, the board's compensation committee said Mr. Ellison's level of pay and bonus were "appropriate" given, among other things, "his leadership of our long-term growth strategy" and "his contributions to our achievement of solid financial results in a challenging economic environment." Though the pay committee didn't mention it, Mr. Ellison was also in the midst of the company's pitched bat-

tle to acquire PeopleSoft Inc., which capitulated late last year.

Then there is Mr. Benioff, who appears content with his large stock holding in salesforce.com and willing to forgo any meaningful compensation plan. Through a company spokeswoman, he declined to comment for this article. But according to a public-offering document, Mr. Benioff owned a stake just shy of 28% last June – currently valued at about \$430 million. He takes no bonus or options, nor does it appear that he will anytime soon. The offering document said his \$10 annual salary – up from \$1 in the year ended Jan. 31, 2004 – isn't likely to rise further.

To some critics, that's how it should be. Referring to executives who, like Mr. Ellison, take new equity grants when they already have huge stakes, Robert Fields, a New York compensation consultant and lawyer, asks, "Why are they getting more stock?" When companies float more shares to compensate their already-stock-heavy founders, Mr. Fields says, other investors suffer a dilution in the value of their own holdings.

Naysayers also question whether giving new shares to founders with large holdings makes sense given that one of the main tenets of stock ownership is to align the interests of management and stockholders. "You don't have to align them with shareholders, because they are already very large owners," says Mark M. Reilly, a partner at Compensation Consulting Consortium, a Chicago consulting firm.

Linda McMahon and her husband, Vincent K. McMahon, the co-founders and largest shareholders of World Wrestling Entertainment Inc., don't receive or want any more stock or options as part of their annual compensation.

"Stock is not the way we chose to be compensated," says Ms. McMahon, who as CEO has been paid a \$750,000 salary in each of the past three fiscal years, and in 2004 received a \$750,000 bonus, according to the company's latest proxy statement. "We have the most focused concentration on increasing shareholder value because we are the largest holder," she says. As of July, according to the proxy, the McMahons owned all of the company's 47.7 million Class B shares, a 70% stake, with a value of roughly \$578 million at the stock's current price.

Mr. McMahon, the company's chairman, received a \$1.1 million salary in the year ended April 30, 2004, unchanged from the prior year, and a \$1.1 million bonus. This year, however, the pair

waived their bonuses, as well as talent fees they got for appearances in the ring, and are also collecting no salary for the third quarter and are likely to do the same in the fourth quarter, according to a recent quarterly filing. The moves, unrelated to a recent injury suffered by Mr. McMahon, reflect cost-cutting efforts at the company to offset increased promotion expenditures, a spokesman says.

Some compensation experts warn that pay packages for founder CEOs can be too small. "The major problem is they put a lid on the pay they can pay their direct reports," says Watson's Mr. Kay. Compensation committees usually won't pay senior executives as much as – or even close to – what the chief executive collects, Mr. Kay says. So, when founder CEOs set the bar low by seeking modest packages, "it turns out they can't recruit as broadly," he says.

Others say that keeping pay low for founders also can hinder accountability to the board because directors can't use compensation as a weapon or motivator.

"The danger is you create this deity you can't deal with," says Mr. Johnson, the compensation consultant. Often, discussing a pay raise with the CEO is the board's opportunity to assess his or her performance, he says. If compensation isn't being reviewed, he says, "then those discussions often don't happen."

Ms. Plitch is a reporter for Dow Jones Newswires in Jersey City, N.J. She can be reached at phylis.plitch@dowjones.com.