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Why CEO's Earn So Much

The average pay of a Standard and Poor 500 company CEO in 2005 was $13.51 million. Although CEO pay for an entrepreneurial venture is considerably less, we all know CEOs are well compensated for one key reason: They're in the hot seat to make the tough decisions.

With the "hot seat" occasionally on fire, you have to wonder if CEOs have a secret formula for making decisions. Shaun Wolfe, a 20-year veteran of the enterprise software industry and the founder of two start-up companies, says, "If there was a formula for success there wouldn't be entrepreneurs." However, even without a magic formula, this former president and CEO of WRQ, Inc., a $100M enterprise software company and current president of MessageGate, an enterprise email governance and software services company, says there are a few secrets you learn along the way. At a recent Northwest Entrepreneur Network breakfast meeting, Wolfe outlined the dynamic tensions that impact CEO decisions and how he balances them to avoid what he calls "the snowball effect of disaster."

Reasons for Failure

Knowing why businesses fail is key to understanding how certain decisions can help avoid catastrophic failure. Companies usually fail because of the:

1. Wrong idea at the wrong time;
2. Wrong go-to-market strategy;
3. Wrong team; or
4. Wrong prioritization between time, innovation and organizational systems.

Once a business is up and running, number four is usually the Achilles heel. "The difference between CEOs that make great decisions and those that don't, is how they handle the millions of mundane decisions related to prioritizing time, innovation and organizational systems," says Wolfe. These nuances are the dynamic tensions that constantly affect decisions and lead to either great success or dismal disasters.

Executive Insights

Cheryl Isen

Understanding "Dynamic Trade-offs"

What an early-stage company gains in being light and nimble, it lacks in bandwidth. This makes decisions easy to move on, but hard to correct. It requires the entrepreneurial CEO to make constant trade-offs in focus between time, organizational systems and innovation.

Time decisions cover issues of speed to market and money. For example, should the company's primary focus be on securing early sales wins quickly? Or on figuring out how much additional funding to secure from which sources– angels, VC's or private equity?

Organizational system decisions are about growth through scale and building systems to reduce costs. These might include ramping up with a product management team and all the process that decision requires, or focusing on formalizing procedures to gain efficiencies to improve profit.

Decisions related to innovation focus on building growth through products. Should the company invest in a new product line, unique product enhancements or better ways to deliver the product?

Dynamic tension is caused by the interplay between these decisions. "Unfortunately," Wolfe says, "entrepreneurial companies only have the bandwidth to focus on two dynamics at a time. Your job as CEO is to figure out which two."

Making Conscious Sacrifices

Company priorities are pressured regularly by situational dynamic tensions. These questions illustrate the dynamic tensions and tradeoffs CEOs must make between time, organizational systems and innovation:

- Should I hire an experienced product manager now or later? A decision to hire prioritizes organizational systems because product management adds process around requirements gathering and provides product definition structure for future releases. This investment in "systems" could negatively impact "time" and potentially "innovation".
- Do we need to replace the founder with a professional CEO? A founder CEO is typically driven by innovation and informal decision-making. A professional CEO likely offers experience with the processes around decision making and the infrastructure required to scale. This tradeoff is often a nod to prioritizing organizational systems.
- Do we expand now or later? Expansion is about scale and takes money which increases the burn rate, potentially putting greater pressure on time. Deciding to scale creates a focus on systems because of the infrastructure and automation needed to scale.

- Are we ready to compete on price? To compete on price (and remain profitable) requires greater efficiencies than the alternatives. A focus on efficiency usually prioritizes systems such as automation, standards and simplification. Competing on price usually requires a sacrifice in flexibility (innovation) in order to invest in efficiency (systems).
- How are my competitors likely to fail? Large companies oftentimes have weaknesses in “innovation” (often in the form of flexibility) that smaller companies can exploit.
- Do I have the right staffing mix between development & sales? This is a question that leads to a trade off between product innovation and growing the company/scale.
- Why would (insert company name) buy me? If you’re strengths are great technology then the buyer needs to be willing to buy “innovation”. Some are not and have a “not invented here” resistance. If your strengths are around your customer base and market awareness then you the buyer needs to highly value those (System) assets.

It’s also important to understand if the decision being made is strategic and going to affect the company strategy, or tactical, because it’s being made to overcome a situational problem.

For example, “time and organizational systems” become priorities if a company needs to get to market quick at the lowest price. “Innovation and organizational systems” might be crucial if a company is an established leader or garage start-up, where time isn’t an issue but rapid scale is. Companies offing the next Web 2.0 product fit into this category. However, by far “time and innovation” are the most common dynamic. Companies with these priorities focus on finding money to quickly turn their prototype into a real product. They’re trying to leverage a good idea, but the clock is ticking.

“The challenge is where to make the trade-offs each month, week and year,” explains Wolfe. He adds: “You have to make a conscious trade-off choice in the face of employees, investors and virtually everyone complaining about the sacrifices being made.” Clear communication about trade-offs is an absolute requirement to achieving company-wide alignment with the vision and direction. According to Wolf, “If you make decisions and trade offs consciously by considering the dynamic tensions, you will have the ability to clearly state why the sacrifice is being made, and align the resources to achieve it.”

These “Executive Insights” are based on monthly presentations provided by leading entrepreneurs at the Northwest Entrepreneur Network (NWEN.org), a non-profit organization dedicated to helping entrepreneurs succeed. The column is written by Cheryl Isen, founder of Isen & Company, a strategic marketing and public relations firm that helps emerging companies increase corporate visibility and brand awareness Contact Cheryl at (425) 222-0779, Cheryl@IsenandCo.com or on the web at www.IsenandCo.com.