
IT Compensation Returning to Pre-Boom Pay for Performance Model According to Leading Annual IT Compensation Survey

2004-08-16

After three years of sluggish growth, salaries for information technology executives at startup technology firms plateaued in 2003, and a greater portion of their total compensation is now based on performance, according to the most recent annual IT compensation study released today by leading executive search firm J. Robert Scott, law firm Wilmer Cutler Pickering Hale and Dorr LLP, and Ernst & Young LLP. Compensation trends point to an industry that has gotten back to basics after the irrational exuberance of the 1990s and is now rewarding top executives with bigger bonuses for real results but lower base pay.

The nationwide study, conducted in association with academics from the Harvard Business School, is the most comprehensive survey of executive compensation among privately-held, emerging technology companies and the first to make this information readily available. Now in its fifth year, the annual report is used as an authoritative guide by venture capital firms and their portfolio companies in making critical decisions regarding attracting, rewarding and retaining key talent.

The survey found that:

- The average base salary for IT executives leveled off with only a 1.9 percent increase last year. This is flat compared to the large year-to-year increases of the past and continues the downward trend from prior years, when base salary increased 2.9 percent in 2002 and 7.9 percent from 2000 to 2001.
- On the other hand, salaries to executives at the high-end of the pay scale increased more markedly. Those in the top quartile received average total cash compensation increases of 18 percent, notably for the CEO, COO and Head of Sales, each with a 27 percent jump in total cash.
- The average bonus across all positions and segments increased by 15.6 percent. Over the past four years, the percentage of bonus to cash compensation has steadily risen, to 21.9 percent, up from 15.7 percent in 2001 and 19.3 percent in 2002.

The national study found that nearly three-quarters of the companies surveyed used only stock options for time of hire grants. Both stock and options are used by 16 percent of firms while 3

percent use only stock. While other positions showed a decrease, average time of hire grants for non-founding CEOs increased in 2003 to 7.53 percent from 6.22 percent in 2002.

"Technology firms and their investors now see that they can gain greater equity in their companies by investing in the right people, and in turn are providing incentives to executives for driving value to the bottom line," said [A. William Caporizzo](#), partner, Wilmer Cutler Pickering Hale and Dorr LLP.

"This is a healthy dose of reality since the days when huge stock options were the norm and represented guaranteed cash in hand. It is safe to say that ownership incentives will continue to be a key component of compensation strategies used by startup companies to attract, retain and motivate talented leaders. The interesting thing to watch over the next several years will be the specific equity vehicles companies choose to use."

According to the report findings:

- Exclusive of founders, who represent one-third of the executive population in the survey, total cash compensation among all executives increased by 4.5 percent from 2002 to 2003, a significantly smaller increase than the 7.9 percent increase in the previous one-year period.
- Total cash compensation for non-founding CEOs is considerably higher than that of founding CEOs, a difference of 17.7 percent.

The fifth annual IT Compensation survey was conducted between December 2003 and March 2004. More than 900 executives were surveyed across the country, representing senior executives from 170 private technology companies in five business segments: software; communications; hardware, semiconductors, electronics; IT services, consulting and integration; and content, information providers. The largest industry sector participating was software, representing 51 percent of respondents, followed by IT services/consulting and systems integration at 18 percent.

For a copy of the abridged version of the survey, please email us at marketing@wilmerhale.com. A copy of the unabridged results is available for \$350 by contacting Mike DiPierro from J. Robert Scott at 617-563-2770.