Motorola lays big bet on new handset chief

Commentary: Jha's pay seems excessive, but risk of job may be worth it

By Therese Poletti, MarketWatch
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SAN FRANCISCO (MarketWatch) - In landing a new chief executive for its troubled mobile device business, Motorola Inc. is clearly banking on the old adage that "you get what you pay for."

Sanjay Jha, the co-chief executive of Motorola, managed to seal a compensation deal that the Wall Street Journal estimated could be worth $94 million, including restricted stock, options, base pay and a special payment. That's more than nine times what he was earning at Qualcomm Inc., his previous employer, and would put him easily in the upper-echlon of the country's highest paid CEOs, according to rankings by Forbes.

It is tempting to call numbers like this exorbitant. But given the significant challenges Jha faces to make this business work, he may end up being worth every penny.

"This is a case example of how the board apparently 'found their man' and the candidate was then able to negotiate a very rich agreement," said Mark Edwards, chairman of Compensia Inc., a compensation consulting firm based in San Jose, Calif.

The clincher of the package is a $30 million payout if Motorola does not spin-out its beleaguered mobile devices business by October 31, 2010. The company has stated publicly that it hopes to complete the deal by the end of next year's third quarter.

At first blush, this $30 million makes one wonder, why should Jha bother getting the unit ready for an initial public offering if he will make a fistful of money even if the deal does not pan out? But analysts and compensation experts said a pay package of this nature was necessary to lure someone of Jha's caliber, who faces a serious challenge in turning around a money-losing business that is still financially dependent on the Motorola mother ship.

Pay consultant Edwards said the package is "certainly above competitive norms," but he pointed out that Jha is coming from a very successful company and leaving a lot on the table.

"He clearly is interested in not just being a co-CEO, but in being the CEO of the spin-off," Edwards said. "Understandably, he negotiated protection in the event the spin-off doesn't occur -- which is primarily outside his decision."

His stake in a new handset entity has the potential to be far more lucrative. According to the employment agreement, Jha will own a 3% stake in the business in the event of a spin-off.

Still, some may find this a hard number to swallow, especially in an economy where people are losing their homes and gas prices are soaring. Robert Forman, a partner with CTPartners, an executive recruiting firm, agreed that Jha's pay is a hard number to look at, but is probably reflective of the risk he is taking.

"You have to look at the fact that this is a $22 billion division, and in the last ten years, this brand has lost a lot of position on a global level," Forman said.

Jennifer Erickson, a Motorola spokeswoman said Jha's pay package was approved by the board and its compensation committee. She added that the package is in line with his position and his peers and "designed to strongly align Jha's interests with those of the shareholders." Activist investor Carl Icahn, who has a seat on the Motorola board and had veto power to reject the candidate chosen for the handset business, has not made a peep regarding Jha's pay. His office did not return a call seeking comment.

Shareholders, on the other hand, have been doing cartwheels since the news. Motorola's stock jumped almost 12% on Monday following the news of Jha's hire. Merrill Lynch flipped his rating on the downtrodden stock - which has lost more than half its value in the last 18 months - from a sell rating to a buy.

"We have great respect for Sanjay," Merrill analyst Tal Liani wrote in a note to investors. "We believe Sanjay will help to crystallize Motorola's strategy, refocus the company on profitable growth and help build a solid handset portfolio." Mark McKechnie of

American Technology Research believes that Jha is "very good choice" to lead Motorola into the smart phone market.

Jha left his high-ranking job as chief operating officer of Qualcomm to tackle the enormous challenge of turning Motorola's handset business around. At Qualcomm, he would have made about $10 million in base pay, bonus and the value of stock options during 2008.

"If it succeeds, he will be hero," said Ed Snyder, an analyst with Charter Equity Research. "You can handicap it all you like, but the situation is tenuous at best. It may not be desperate, but it's going to take a lot of work."

The pay package also illustrates two other things. Jha's own vision of the daunting challenge he faces, and the serious possibility that a spin-out might not occur. Synder said that the unit is certainly not ready now. "Not when it's sucking out too much cash," he said.

With his technical background, one of Jha's first moves is probably going to be to try and sort out Motorola's messy platform situation, where it supports too many different technologies. His next step will be to lead or perhaps take over the development of a new smart-phone that could compete with Apple Inc.'s BlackBerry. He also needs to lure top-flight talent in the areas of marketing, design and consumer goods to balance his engineering-focused expertise.

Jha clearly knows how to negotiate a flush pay package. But if he can in fact turn around the moribund handset business, Motorola may found that it got a bargain.

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