

Negotiating Compensation

Compensation is a hot button issue as organizations are grappling with increasing complexity of hiring and retaining leadership talent. As a professional you are confronted with a plethora of opportunities and a major part of your decision will involve compensation. “Compensation” the operative word here includes cash, perquisites and long term wealth creation opportunities and benefits.

But before plunging into a discussion on compensation, you need to ensure the following.

1. Get a clear view of the role, job title, job content and travel involved.
2. Get a broad idea of the different dynamics in the organization and sector. For example, senior executives foraying into the retail sector need to assess the ability of the company to stay invested long term in a capital intensive industry with wafer thin margins.
3. Personal chemistry with your superior and the organizational work culture. For senior candidates it is critical to assess the hiring organizations ability to assimilate external hires at the senior level.
4. Employer brand and financial condition of the hiring organization.
5. If it involves relocation then a clear idea of the cost of living, employment opportunities for the spouse, schooling for children etc.

Once you are satisfied with the above, then comes the more difficult and delicate aspect of the entire process i.e. negotiating a reasonable and fair compensation package in line with your expectations.

When to discuss compensation?

The best time to start a discussion is when the company has expressed its desire to move forward on mutual interest. Watch out for the body language and intensity of discussion and specific queries like your notice period in your current organization and expected compensation. By then you would have already had two or more interviews and if a search firm is involved, usually you will sense their urgency on behalf of their client.

The key factor during such discussions is to remain positive and maintain a friendly, calm and professional demeanour at all times and try and make it a collaborative process. Be firm but friendly in asserting your rights. Reiterate your strong interest in the position at all times.

Jack Chapman, author of Negotiating your salary writes that saying “O.K” can cost you plenty. It freezes everything right there. If you learn to say “Hmmm” that keeps the process going. Take reasonable time before you make the decision.



Do your Research: What do you need?

Talk to people who you can trust and who have no vested interest in your decision and make an objective assessment of what people make in similar positions within the industry and base your expectations on a realistic number.

Prepare a simple budget based on your cash flows and financial obligations towards mortgages, living expenses, travel, housing and taxes which will finally determine how much you take home. Arrive at a number which will be the baseline for you to accept the offer. For example, executives relocating to Mumbai need to factor the higher cost of housing and factor it in their cash flow.

Keep in mind that often companies are ready to make a few adjustments to ensure that they meet your expectations. Usually employers don't want to lose you over a small gap in expectations as it is more expensive and time consuming to go to the market and finding someone else.

How do you negotiate?

Once you have arrived at your base line number (below which you will not proceed further) and you have reliable industry data, you now have a range that seems fair and reasonable for the position. Organizations may also request you for your current compensation information whenever relevant. Usually, most employers will extend an offer to you once they gain a fair understanding of your expectations through discussions and also keeping in view internal bench marks in the hiring organization. Once you receive the offer, take time to consider details of the offer. After careful review, you could specify an amount closer to the upper side of the range you have determined through your research. This will test your diplomatic skills and you need to be prepared with justifiable market data if possible.

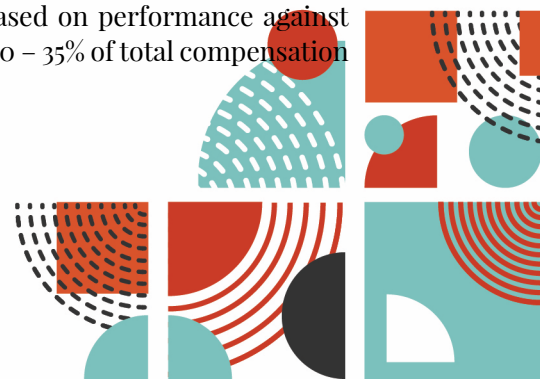
Keep reiterating your strong interest in the role while you arrive at an acceptable number which is a win-win for both the sides. In our experience, most negotiations fall through where there is lack of mutual trust and transparency in discussions. Once you reach a verbal agreement ask for a written confirmation which you can review.

What can you negotiate?

Every organization has a set of perquisites/ benefits which are at times level/ grade dependent and usually non-negotiable.

Cash

- Base Salary – next review, amount and potential for increase. If this cannot be moved beyond a particular range, then you could ask for 6 month review plan, based on performance.
- Bonuses – Signing; if you are leaving something on the table in your previous organization in the form of options, retention pay etc. Performance bonus; based on performance against goals set. Typically performance bonus would constitute about 30 – 35% of total compensation in most cases.



- Deferred compensation – Usually paid out on achieving certain pre agreed business milestones (applicable for CXO positions)
- Severance/ golden parachute; notice pay terms, accelerated vesting of options etc. usually applicable only to senior management positions.

Perquisites

- Provision for housing. Either Company leased or company owned. It is important to get a fix on this aspect when one is relocating to a new city. It is important to get budgets/ type of house and location (proximity to schools/ work place etc)
- Company maintained chauffeur driven car or self-leased car with reimbursement of fuel and maintenance expenses.
- Moving expenses, housing, temporary housing expenses, brokerage etc.
- Insurance (Key man, medical, dependent coverage etc)
- Professional training/ club membership/ subscriptions
- FBT payment (whose account)

Wealth creation

Employee stock plans, Pre – IPO options (if you are joining a start-up, kicker bonus (usually on achievement of extra ordinary business results) etc.

Typically, established brand name corporations tend to be less flexible. Here the risks are lower and so is the upside. In case of start-ups or new businesses the opportunity to create significant long term wealth exists. Ensure that you negotiate a handsome wealth creation plan in the form of pre – IPO options, deferred bonus plans or performance linked sweat equity plans.

Finally, focusing excessively on compensation is a “put off” for most organizations. Though compensation is an important yardstick for measuring an opportunity, your decision should be guided by the long term potential of the role, the industry and the impact on your future employability.

