

Negotiating your salary

Even the best executives now need strong arguments to negotiate higher pay, says Conrad Pramböck

Is it becoming increasingly difficult to get a pay raise everywhere around the world? While everything around us is getting more expensive, companies are imposing more and more cost cuts on their human resources departments.

In the majority of companies, personnel costs have become the focus of cost-cutting measures because they often represent the biggest cost factor. In many industries, the share of labour costs is between 50 and 70 per cent.

In recent years, blue-collar workers, as well as their white-collar colleagues, were the first to feel their companies' cost-cutting measures. Starting salaries for young employees in most Western countries have remained nominally constant over the last 10 to 15 years. However, their real salaries, taking into account inflation, have been falling.

Nowadays, it has also become harder for executives to get pay raises, while the economic pressure increases every year. For everyone, from top management down to line workers, more work has to be done for the same amount of money.

Average salary increases

Before the beginning of the 2008 economic crisis, managers could expect salary increases on average twice as high as those of their employees. For the three to four per cent yearly increases that employees used to get on average in the West, managers received salary increases of between six and eight per cent on average.

For many top managers, large salary increases are now a thing of the past. The current average income growth for executives, even in the world's leading corporations, is only three to four per cent a year (see table, right).

Bargaining power in salary negotiations

Given these circumstances, good executives need to have persuasive arguments, if they are to

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negotiate a higher salary for themselves. But negotiations of an executive differ quite significantly from those of a young professional.

Usually, the negotiating power within the first job is extremely low. More than 50 per cent of companies, especially large corporations, have fixed starting salaries that they do not change even for the best graduates. In such a case, for a young candidate, that means 'take it or leave it'.

Even if there is no fixed starting income, the difference between the average and the best starting salary within a company is usually less than 10 per cent. Therefore, the salary negotiation of a young professional is often reduced to the question 'What is the starting salary in your company?' followed by 'When will we next talk about a salary increase?'

The bargaining power is so unevenly distributed in favour of companies with regard to career starters because candidates are readily interchangeable. Companies can choose from a pool of similarly qualified career entrants and therefore determine the financial conditions of employment to a large extent.

Negotiation for executives

Bargaining power increases with professional experience and this holds true particularly for top managers. Due to their specialised knowledge, professional skills and their network, executives are unique and therefore more difficult to replace. Accordingly, many companies cannot easily replace a distinct profile even after months of searching.

The essential difference between the negotiating positions of young professionals and executives is the following: those who acquire unique knowledge and special skills over the years and who establish strong relationships in their professional network within and outside the company have more bargaining power in their salary negotiations.



BARGAINING POWER

For many managers, automatic large salary increases are a thing of the past - a new approach is needed

Right arguments for a salary negotiation

The majority of tips for negotiating a higher salary given in popular guidebooks are well intended, but they focus almost entirely on the question of how employees can impress or outsmart their negotiation partner for their personal gain. In the long run, this strategy almost never works out as intended. Some negotiations may be successful in the short term, and some employees even resort to blackmail to force a higher salary, but this destroys trust with the negotiator for a long time and is certainly not recommended.

There are two main negotiation arguments recognised worldwide, which can be used to justify higher pay:

- Better performance
- Greater responsibility

The performance of a top manager is usually assessed based on company profits expressed in indicators, such as EBIT or EBITDA. Those



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who generate higher profitability are often considered the best executives. A sustained growth in corporate profits represents the best business card for a successful manager and creates the best environment for a successful salary negotiation.

A larger area of responsibility can be measured by different criteria. The most important ones are responsibilities for revenues, employees, regions, products and budget. Managers even with the same job title may have completely different remuneration packages depending on their scope of responsibility. It usually makes a

significant difference in their compensation when, for example, sales executives are responsible for the Munich area, for the whole of Germany, for all of Europe or worldwide.

The salary differences can be enormous for the same executive positions, even in similar industries. Managers in large corporations usually receive much higher pay compared to executives in small and medium-sized enterprises. On average, a top executive's salary increases by €600,000 with every 50,000 employees (see table

SALARY INCREASES FOR EXECUTIVES IN TOP 100 COMPANIES

Salary Increases	2014	2013	Average last 3 years	Average last 5 years
Base Salary	3.1%	5.5%	4.1%	5.5%
Total Cash	3.5%	3.5%	5.1%	6.9%

TOP EXECUTIVE COMPENSATION BY SIZE

	Base Salary	Bonus	Total Cash
50,000 to 100,000 employees	€512,000	€299,000	€811,000
100,000 to 150,000 employees	€681,000	€719,000	€1,400,000
More than 150,000 employees	€904,000	€1,119,000	€2,023,000

below). The essential difference lies in the size of their area of responsibility.

In brief: those who can demonstrate outstanding achievements over the past year and can also show where they have taken on additional responsibilities, can bring the best arguments to the table. A list stating all outstanding achievements and new areas of responsibility is the best preparation for a salary negotiation.

What you can do for a long-term higher salary

A better performance usually results in a higher bonus with short-term impact on your compensation. A larger area of responsibility often leads to a higher base salary and has a medium-term impact on the remuneration package.

The best way to increase your salary over the long term is to allow sufficient time to build up your professional network. Networking is not necessarily about the number of contacts you have or their professional status, but rather about the complete confidence between you and your network. It is not about the quantity of the contacts but about their quality, as measured by the extent of trust between the two parties.

Managers can best contribute to the long-term success of their careers by building a complete basis of trust with their superiors, subordinate managers and employees, customers and business partners, external consultants, the media and even competitors. Regardless of the industry you work in, your long-term interest should be to build credibility and trust with as many people as possible.

It sounds trivial, but many managers tend to overlook this: if your goal is to achieve a pay raise, you need someone to grant you this salary increase. The more your negotiating partner is convinced by

your work and your results, the more indispensable you are to them. Your objective should be to first support the person from whom you want to receive something and then ask for something in return.

At every opportunity, ask your negotiation partner how you can support them in achieving their professional targets. Contribute to their goals and always make them look good. The more useful you are to them, the higher the probability of your promotion. You need 100 per cent trust with your superior in order to advance in your own career.

Always keep in mind: you can never build a successful career by yourself. If you work for a company, you have a superior. If you run your own business, you need customers. If you want to earn money, you have to contribute to the goals of others first and support them as well as possible. It is more blessed to give than to receive. And if you give, you will be happily given to in return. This also applies for your salary negotiation. ☺