Money Matters in the Hiring Process

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Although job applicants are plentiful, salary is still up for discussion—and negotiation.

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While unemployment has topped 9 percent and the economy remains shaky, many employers are filling job openings.

"Companies are being selective and taking a bit longer in the process, but they are still hiring," says Don McDermott, president of D.G. McDermott Associates, a compensation consulting firm in Red Bank, N.J. "Even if they have instituted a hiring freeze, companies will still hire when the right person comes along."

Some employers are even willing to negotiate with applicants on compensation—especially applicants likely to be revenue-generating superstars.

In general, however, the economic slowdown and job scarcity have led to significant changes in the compensation segment of the hiring process. Many employers are lowering starting salaries or keeping them flat, experts note, and they're finding many candidates flexible on compensation—sometimes even silent about it. Moreover, crafting executive compensation packages has become easier, some experts say.

First, Talk About Money

The topic of compensation is coming up earlier now in the back-and-forth between applicant and employer, and with good reason, experts say. Because companies are often overwhelmed by overqualified candidates, pay can be a good way to narrow the field.

In addition, "there is so much variety in people's salary expectations these days that employers need to gather compensation information from candidates as early in the hiring process as possible," recommends Josh Warborg, district president in Seattle for Robert Half International, a professional staffing firm based in Menlo Park, Calif. "There are drastically different numbers being thrown around because candidates' expectations are all over the place."

At Dallas-based Match.com, an online dating service that's growing and profitable, hiring is progressing at a slower pace than in recent years, and the compensation discussion is happening much earlier. "We want to know upfront if someone's salary requirements are beyond what we are willing to pay," says Steve Donnelly, senior manager of

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human resources. "Having the compensation conversation early in the process makes the entire hiring process a lot smoother." He adds, "It is not an efficient use of anyone's time to get candidates deep into the hiring process only to find that the company can't afford them."

Early notice on salary expectations also provides time to determine whether the candidate or the role itself may warrant salaries higher than the established maximum. "In some cases, we let the manager know if a candidate is above the range and would require additional approvals to hire at a higher rate," Donnelly says. The manager can then determine whether the candidate has skills that are special enough and in sufficient demand to warrant the move and whether adding the candidate at that salary will affect equity within the work team. "The person probably has to be a potential superstar to justify that," he says.

Even in a down economy, an organization might open its coffers to hire a strong candidate with skills in areas critical to company success. "Make some judgments regarding the potential return on investment a position might bring," advises Mel Stark, vice president in New York for the Hay Group, a Philadelphia-based global consulting firm. "What is it that I'm buying here, and what is the potential return to my organization?"

At Match.com, for example, individuals with expertise in online marketing and search-engine optimization are prized because of their relative scarcity and their potential to directly impact Match.com's revenue. The company has to compete to hire them.

Market Forces at Work

Among subtle changes taking place in managing compensation negotiations for new hires is differentiation of pay by position. According to the Market Pulse Report issued by the Mercer global consulting firm, and based on data from 640 organizations across all industries, median pay has increased for jobs in manufacturing, information technology and engineering and has decreased for positions in marketing, finance and sales.

"The starting salary for some positions may have been reduced simply because there are so many talented people in search of the same position," Warborg says.

In some instances, new-hire salaries have been reduced because revenues are off. For example, KVL Audio Visual Services of Ardsley, N.Y., specializes in the recession-buffeted hospitality industry. Revenues have fallen, so salaries for new hires are staying flat and bonus levels have declined. "A new person coming in is starting at exactly the same base salary as their predecessor," says Lisa Stamatelos, SPHR, director of human resources. "In the past, I would have had to go up a little in salary" to attract the right person.

Some companies have found the state of the economy and the flood of strong talent available or willing to move to be a boon in filling certain positions. "People seem to be much more open to lateral compensation moves in this environment, either because they have lost jobs or because they see the potential new employers as offering a better future," says McDermott.

Filling executive positions, in particular, is becoming less difficult, as are executive compensation negotiations. "Since the market environment and stock market drop has negatively impacted people's equity-based compensation, hiring at the higher level is a little easier," says Denise Watson, senior vice president of global compensation and benefits for Constellation Brands Inc., a Victor, N.Y.-based beverage company with $3.77 billion in sales and approximately 9,000 employees.

With stock options and other equity-based compensation underwater, these individuals are more likely to move to a new company. "There is not as much incentive to stay, and there is less upfront cost to buy someone out of their equity," Watson says. "The drop in the market is making it easier to steal high-level talent."

Flexibility and Acquiescence

An employer's ability to negotiate applicants' salary requirements depends on the company, the level of the job and other factors. As a federal contractor, Craig Technologies, an engineering and technology company based in Cape Canaveral, Fla., doesn't have a lot of leeway on pay levels for new hires. "When we bid on a federal contract, we have to justify our rate, which includes salaries for our potential employees," says Dean Rosenquist, director of human resources.

In turn, Craig recruiters tend to be forthright with candidates about what the company can offer. "Even if the candidate is not forthcoming about salary requirements, we just tell them our ceiling," he says. "If we are not close to their requirements, the candidate does not even move forward in the hiring process."

Yet recruiters are willing to negotiate when in the running for candidates with high-demand skills or if a position is difficult to fill. In those cases, Rosenquist works with the hiring manager to get necessary approvals to offer a higher salary—generally within 10 percent of the ceiling for the position.

Candidates are also showing flexibility. "I have not really seen their salary requirements go down, but we have seen candidates who may be more willing to relocate or to accept a longer commute in order to take a position," Rosenquist says.

For other companies, the compensation negotiation process has become a test for candidates. Robert Horst, director of recruiting and professional development for Nelson Levine de Luca & Horst, a 110-employee law firm based in Blue Bell, Pa., took note when several recent candidates did not negotiate pay at all; they simply accepted initial offers.

"I personally tend to welcome a reasonable amount of negotiation with a new hire; it demonstrates confidence," says Horst. "Those who don’t negotiate do leave a minor but lingering question with me as to whether or not they will have the courage to do so in the course of their job duties." For an attorney, a willingness to accept the first answer to a question as a matter of course may not be a desirable trait.

The Long View

Although cutting salaries when there’s an oversupply of talent may seem like an effective tactic for cutting business costs, some HR leaders maintain that the tactic could backfire: Employees who are hired at reduced salary levels during the recession may be the first to leave when the economy improves. Experts offer a variety of arguments for maintaining salary levels:

When the economy turns around, Rosenquist says, "We want to make sure we have loyal employees who will stay with us rather than jumping to the highest bidder."

Internal equity is important. If a company starts paying new hires less than current employees in the same job, it can throw off internal equity and the dynamics of a team environment. It can harm the company’s long-term labor market competitiveness relative to its peers.

Everything is changing because of social media. In this age of Twitter, Facebook and LinkedIn, companies can expect information about pay levels and pay negotiations to leak to the business world. If this information puts the company in a poor light, it could have long-term repercussions for the company’s brand as an employer.

Best practices still work, and Stark says those "that position a company well with potential employees make sense regardless of what is happening with the economy."

Accentuate the Positive

If salary-level cuts are a must, however, there are steps that

HR executives can take to make the best of the situation. For example, incentive pay can lead to packages that provide opportunities for new hires to reap rewards when company performance picks up. "If you don't have a pay-for-performance philosophy, now is a good time to develop one," says Watson. "Dollars are tight for everyone, so it is important to invest in your performers."

In addition, this could be a time to adopt a total rewards philosophy and communications strategy. Even if salary levels are lower, HR executives can focus on other elements of rewards, from paid time off and health care benefits to career opportunities and a positive culture. "Pay is not all about salary," says McDermott. "Recognition programs or flexible work schedules are some of the psychic compensation a company can offer."

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