

# CMC Compensation Group

## Insiders vs. Outsiders

### Why does the outside hire get paid more than the internal employee?

Have you heard this one? *“The Company would rather pay more to a green outsider than give one of us insiders a decent promotion”?*

The complaint you hear is that, when considering two individuals for the same job someone on the inside oftentimes will receive a lower salary than if the company went outside to hire a stranger. To compound the insult, it is not unusual for managers to ask insiders to train and orient the new ‘wunderkinde’ to learn how the company operates.

Aggrieved employees feel that an insider \*already\* knows the company, the people, the products / services as well as the policies / procedures. That knowledge and experience is an advantage, they say, shortening any learning curve and cultural orientation. Taking on the role and responsibilities of the new position and not being paid the “going rate” seems unfair – actually a penalty for being an insider. It’s as if the company realizes they don’t have to pay as much for an existing employee, that the time spent in the company somehow reduces their market value and limits a willingness to pay a competitive wage.

Some insiders may feel that the technical experience they have gained in their current job could be used in the \*new\* position, so in effect they have already prepared for the new role.

However, prevailing practice seems to be that, when a company looks to the outside recruiters will be instructed to search for someone who already meets all the qualifications of the job; an experienced candidate who has already performed the job, whose only learning curve would be a short term acclimation to the new company’s policies and procedures. Outsiders are considered to be free of “baggage”: no biases, preconceived notions or social network, and are thus considered more able to become agents for change within the company.

You should also note: if someone already has performed the subject role the chances are good they are already being paid about the competitive or going rate. If that is the case then the company would be forced to pay a premium to attract such a qualified person. They would likely have to pay \*above\* the going rate (or above the midpoint in some companies).

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Here's another common office complaint: "I'd be paid more money if I quit and the Company rehired me"?

Unfortunately there is some truth to this gripe. Over time the external marketability of good performers is rarely matched by annual performance awards within the company.

Merit increases averaging 3.5% may not keep pace with competitive wage growth, especially for in-demand skills. Thus over time a company would find the prevailing wage greater than what they are already paying experienced people. And if you have to hire an experienced person you would likely have to pay more than the going rate, thus potentially creating internal equity issues.

You can do the math; if market pay increases at a faster rate than annual performance rewards, employee pay will fall behind. At some point this will become a serious problem.

So, what's an insider to do? First, let's look at promotions. How can you best position yourself for the inevitable comparison with an outside candidate?

You should compare yourself against the description or requirements of the new position and try to be as honest as you can with your internal assessment. Can you do this job from Day 1, or how much of a learning curve will you need? Are there aspects of the new responsibilities that you haven't experienced before? The results of this assessment will give you an opening for your talk with HR. They will push the "we're giving you an opportunity" angle, and you both know they could always go outside for likely a better qualified candidate. In fact, an advantage you have is that you are likely a *\*cheaper\** choice for the Company. So do not push the pay issue too hard, or you risk throwing the baby out with the bathwater.

Here's a checklist for you to remember when you're doing your self-assessment: 1) are you already familiar with the company policies, procedures and personnel? 2) in your present role have you already demonstrated an ability with the technical side of the new position? 3) remember that internal promotions look and sound good to other employees, and managers know this; 4) can you develop an inside track with the manager (the all-important "fit"); and finally 5) reality is that you are likely a cheaper option than hiring from the outside. Use that fact to your advantage.

Regarding the second complaint, the cumulative impact of annual salary increases is a harder issue to resolve, in that all employees are likely being reviewed at the same time. Special treatment for you might create equity or precedent challenges for managers – both of which HR would have warned them against. You want them to rock the boat, so you'd best come prepared with an argument for why your salary is not reflective of your worth to the company.

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Do not be afraid of compromise. Your plan should be to gain visibility for your performance and value, though it may take some time for a positive result to work its way through the bureaucracy. No matter what you gain from your initial conversation (short of complete victory!) suggest a follow-up salary review in three months. Managers know they'd have a better chance of getting an adjustment approved \*after\* the general employee review, when it's more likely an exception would be approved. A manager who agrees to that review (and who will be thankful to avoid a contentious meeting) is already halfway to approving an adjustment down the road.

By being aware of the restrictions your managers are operating under you may be able to help them help you down the road. Do not beat yourself against the wall of bureaucracy, but plan for your next step; use your knowledge to your eventual advantage.