The size matters for your first offer

Your initial offer is vitally important to your financial well-being. It is the initial stock grant that will vest and that will form the basis for the percentage raise

By **Jeffrey Pfeffer** & **M Muneer**

A former student of Stanford Graduate School of Business who held a senior position in Uber overseas is now back in San Francisco Bay Area. When we asked him why he left the unicorn, he replied that he wanted to return to the U.S. and that there was little financial incentive to stay at Uber abroad.

He had been in this position for four long years. His options, as is standard, had a four-year vesting schedule, so he was completely vested. When we asked him about refresh options, he said that Uber, like all companies public and private, had a refresh program but it was quite minimal. Then he noted that salary raises were typically presented in percentage terms, and there were limits as to how large a percentage increase anyone could get in a single year.

This is not unusual and is the case virtually everywhere for the following reason: Companies typically manage their salary budgets by looking at where they stand (using some benchmarking survey) and considering what wage and price inflation has been and is going to be. Then they set a target raise budget as a percentage of their total salary spends, which may or may not be a percentage of expected revenue overall. Each department gets about the same percentage increase and has to distribute it across its people. With pressure to give everyone at least something, and with raise budgets typically in the single digits, you can see why it is almost impossible for any person to receive an enormous percentage raise in a given year.

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The obvious implication from the vesting and raise conversation: Your initial offer is vitally important to your financial well-being. It is the initial stock grant that will vest – do not count on significant refreshes or new grants. It is the initial salary that will form the basis for the percentage raise. If your boss gives you a 10 percent raise, they will think they have treated you generously. If your initial salary was much below your expectations, you will have an impossible burden to catch up.

Various data also show that subsequent employers will benchmark their offering to you based in part on your last drawn salary. There is no zero-based calculation or based on what value the position they are offering you is worth to them. Incidentally, this is one of the biggest obstacles to the gender pay parity. Although you will not necessarily be trapped for life if you start low, the persistence of the effect of your initial salary and option grants over time may be larger than one can imagine.

Tomes of research on gender inequality on pay suggest that women are particularly reluctant to negotiate their initial offers, which provides one reason why they earn less than men. And the compounding effect of that initial offer means they can easily get even more disadvantaged over time. There are many other related reasons too for the inequality. But it is not just women who can be reluctant to negotiate their initial offer. If you have a job offer from a prestigious enterprise, you will naturally feel happy and grateful. Moreover, many people are reluctant to come across as pushy by trying to negotiate better initial entry terms. In India, many MBA graduates from premier institutions feel it will reflect poorly on them, as greed is associated with asking for more money.

If you come to your negotiation table with good information about what others like you are getting in the market, and if you can construct a narrative around your value to the company, you will appear confident but not pushy, and confidence is a trait valued by organizations.

So when you are on the market and thinking about accepting an offer, remember that the terms of that offer matter a lot – not for just the current year, but have an effect on your financial well-being well into the future.

ABOUT THE AUTHORS

DR. PFEFFER is chair professor of organizational behavior at Stanford Graduate School of Business, and **DR MUNEER** is Co-Founder and Chief Evangelist of the non-profit Medici Institute Foundation. Twitter @MuneerMuh