

Technology Companies Pay New-Hires More Than Current Employees for Key Job Roles

Salaries for newly hired mid-level professionals at technology companies are higher, on average, compared to incumbent employees — raising concerns about retaining talent.

It may not come as a surprise to learn that today's hot talent market is pressuring technology companies to offer high salaries for key candidates. However, retention concerns and internal pay gaps may arise when new-hire salaries surpass the rate that incumbent (i.e. tenured) employees earn. To get to the heart of this issue, we set out to measure how new-hire salaries compare to tenured employees at technology companies. Our findings provide key takeaways for businesses to think about when planning for workforce growth.

We began our research by limiting our analysis to professional jobs in the December 2018 edition of the [Radford Global Technology Survey](#) that had at least 20 existing employees and 20 new hires (hired since April 2017). We then averaged the base salaries for the new hires and incumbent employees by job level and job function.

From this analysis, we uncovered two major findings:

1. Mid-level professional jobs (level 3, 4 and 5 in the Radford Global Technology Survey) across most job functions reflect statistically significant base salary premiums for new hires vs. incumbent employees at the same level.
2. Entry-level professional jobs (level 1 and 2) don't have a big premium for new hires. We believe that's typically because the market value of entry-level skills are less dynamic and critical to purchase at a premium than those that key employees possess at higher job levels. Furthermore, if incumbent employees perform well, they would likely be promoted more quickly into advanced roles compared to those employees at the mid-level that may be harder to promote or reward with pay actions requiring special exception.

We should note that we did preliminarily look at management jobs and found similar findings. However, we limited our analysis in this paper to professional jobs since more companies hire in the professional category.

Figure 1 below shows the percentage of premium in base salaries that new hires at a professional job level 4 receive compared to the average of incumbent employees within the same job function. The premium is calculated by comparing the average salary for employees hired more recently divided by the average salary for those employed for at least 18 months. Professional services, human resources, product development, and service and support jobs pay the highest new-hire base salary premiums.

Figure 1

Base Salary Premium for New Hires: Professional, Job Level 4

Job Function	# of Incumbents	# of New Hires	Base Salary Premium for New Hires
Professional Services	33,200	2,915	7.60%
Human Resources	9,514	1,293	6.50%
Product Development	194,062	15,186	5.81%
Service & Support	25,061	1,238	5.14%
Finance	35,303	3,604	4.96%
Marketing	36,097	4,483	4.68%
Information Technology	62,412	4,049	3.91%
Operations	24,914	1,565	1.69%

Source: Radford Global Technology Survey

As mentioned above, pay premiums are generally smaller at lower job levels. Figure 2 shows that job levels 3, 4 and 5 have by the highest new-hire pay premiums compared to incumbent employees at the same level.

Figure 2

Base Salary Premium for New Hires by Job Level

Radford Professional Job Level (all functions)	# of Incumbents	# of New Hires	Base Salary Premium for New Hires
Level 1	78,896	25,156	0.66%
Level 2	264,511	44,360	2.98%
Level 3	449,189	50,458	4.84%
Level 4	420,563	34,333	4.90%
Level 5	165,423	11,374	5.42%
Level 6	32,217	1,544	3.17%

Source: Radford Global Technology Survey

Finally, we can also analyze the data by job function, combining all job levels, to see how differences in pay premiums for new hires change based on job function rather than job level, which is shown in Figure 3.

Figure 3

Base Salary Premium for All New Hires by Job Function

Job Function (all levels)	# of Incumbents	# of New Hires	Base Salary Premium for New Hires
Professional Services	123,661	12,526	4.91%
Human Resources	34,462	5,715	5.05%
Product Development	579,337	69,069	4.81%
Service & Support	126,492	15,913	0.44%
Finance	133,958	17,022	1.80%
Marketing	113,514	17,269	5.32%
Information Technology	34,462	19,462	4.57%
Operations	94,771	10,249	1.18%

Source: Radford Global Technology Survey

When comparing the results for all employees across job function, the new-hire premium declines except for marketing and information technology jobs. This indicates that among those two job functions there may be considerable demand for entry-level employees, thereby driving up the new-hire premiums when job levels are aggregated. However, among all other job functions we analyzed, the new-hire base salary premium is more prominent for mid-level professionals.

Next Steps

Our data shows that technology companies are willing to entice employees from other organizations by offering attractive rewards packages especially for mid-level professional employees. However, this strategy may ultimately be unsustainable and self-defeating. If companies are consistently paying their mid-level new hires more than their established incumbent employees, they are at risk of losing that talent to their competitors while at the same time trying to poach talent from potentially the very same companies. When companies are in an active hiring mode, as many technology firms are, they also need to ensure they retain their top performers. Retention adjustments are less expensive than replacement hires at premium pay.

Internal pay equity concerns can also arise when technology firms consistently pay new-hires more than their incumbent employees. With gender pay equity concerns permeating every corner of the corporate and legal world these days, companies should analyze whether they are creating or worsening pay equity gaps within their organization when new hires are not paid in line with their colleagues when joining the firm.

Analyzing your company's new-hire premiums can uncover potentially problematic pay practices that you may not even know exist in your organization. That doesn't mean that all companies need to reverse course and either lower new-hire salaries or raise merit budgets; however, having knowledge of just how much the gap between average base salaries is within your organization can be important information for the long-term health of your talent and rewards programs. The action item you should take is to ask yourself whether your top performers are

paid their market value. If they fall behind (when starting rate increases exceed merit increases), adjustments may be needed.

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