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Taking control of your counter-offer environment

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Taking Control of Your Counter-Offer Environment

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Sheila, the director of information technology (IT), is leading her company's largest IT implementation, a $20 million inventory, project management, accounting and reporting application. With just three months before the new system "goes live," the key employee on the project informs Sheila that she just received an offer from another company that looks very tempting. The offer includes a 20 percent salary increase and a job with increased accountability. Sheila meets with the compensation manager and insists that a counteroffer be made immediately. Sheila is convinced that without this employee, the IT implementation will be delayed, resulting in substantial budget overruns.

How should the compensation manager respond to this situation? If an organization has a counter-offer policy, there are guidelines to follow. Although experience suggests that compensation managers often are faced with situations like these, a recent WorldatWork survey indicates that only 6 percent of companies have counter-offer policies or strategies in place (Johnson, 2003).

Developing a counter-offer strategy is a timely and poignant topic for several reasons. First, because the economic environment appears poised for a rebound, the best and brightest employees are at the greatest risk to

leave their current employer for other opportunities. A 2003 Sibson survey published in *USA Today* reported that high performers are 32 percent more likely to be looking for a new job in the next year than their low-performer counterparts. An Accenture survey recently indicated that nearly half of middle managers are looking for another job or plan to do so when the economy recovers (Armour, 2003). A Society for Human Resource Management (SHRM) survey indicates that 64 percent of employees are extremely likely to increase the intensity of their job search, and an additional 19 percent were somewhat likely to increase the intensity of their job search. Similarly, 56 percent of HR professionals anticipated they would experience an increase in employee voluntary turnover once the economy and job market improved (Collison & Burke, 2003).

The second source of increased pressure to make counteroffers is due to corporate cutbacks that have left the pool of internal replacement talent for key positions shallow or nonexistent. Leaf (2003) estimates that some two million jobs have been trimmed from U.S. payrolls in the last two-and-a-half years.

Third, the United States is on the cusp of the greatest retirement wave in history as the core of the aging baby boom population, some 24 million workers, will be tempted to retire during the next seven years (Munson, 2003).

Failure to exercise sound and disciplined judgment in making counteroffers could lead to turmoil for companies in an increasingly competitive environment for talent. Reactionary decisions could have long-term negative effects on the perceived fairness of the organization and the integrity of its compensation program. This article presents the findings from a national survey of counter-offer policies and practices and provides a framework for building an effective counter-offer strategy.

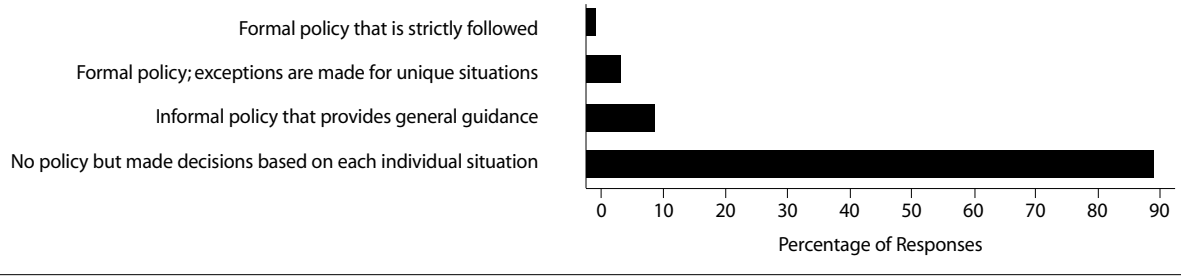
Counter-Offer Survey Findings

Approximately 284 HR professionals from mid- to large-sized organizations completed the counter-offer practices survey administered by the Hay Group in June 2004. Two-thirds of respondents completed at least 75 percent of the key questions and were included in the analysis. Respondents represented organizations of all sizes from virtually all industries.

Consistent with the findings from the earlier WorldatWork survey, counteroffers are primarily ad hoc and situational in nature. Only 4 percent of respondents indicated that they had a formal counter-offer policy. Eighty-nine percent said that they did not have a policy. (See Figure 1.) The implication is that the HR or compensation functions in most organizations have not established a formal counter-offer strategy, in terms of identifying the types of situations that may warrant a counteroffer or the composition of it.

FIGURE 1 **Counter-Offer Policy**

Which response best describes your organization's counter-offer policy?



Even though respondents indicated that the vast majority of organizations do, in fact, make counteroffers under certain situations, it is not frequently done. During the last year, 18 percent of respondents indicated that they had not made a counteroffer to any employees; 60 percent had made counteroffers to less then 5 percent of employees who had offers of other employment; 15 percent made offers to 5 percent to 25 percent of employees; and only 7 percent made offers to more than 25 percent of employees who had offers for other employment. As might be expected, respondents indicated that their organizations were more likely to extend counteroffers during the economic boom of the 1990s than in the current economic situation.

Counteroffers are given to certain key subsets of the employee population. As might be expected, executives were most likely to receive counteroffers, with managers and professionals next most likely, while sales and support staffs were least likely to receive them. Within these groups, counteroffers then typically are made to employees who are both top performers and in key or high-impact positions, further reinforcing a rather selective use of this retention tool. (See Figure 2.)

Interestingly, respondents thought that approximately half of employees in critical jobs or those designated as high performers expected to receive counteroffers. This suggests that employee expectations are much higher in terms of receiving a counteroffer than actual company practices suggest.

There is a mixed record of retention success when an organization extends a counteroffer, as there is no clear pattern on the successful ability of an organization to retain talent using these vehicles. (See Figure 3 on page 28.)

Although managers may question the loyalty of employees who accept counteroffers, findings indicate that the relationship with the employee usually is not damaged. (See Figure 4 on page 28.) If anything, the data suggests that the relationship with the employee largely remains the same and turnover among these employees does not increase significantly after receiving a counteroffer.

While there tends not to be an overarching counter-offer strategy in most organizations, HR is likely to be actively involved in the development of counteroffers, either in a primary role or as a consultant to management. (See Figure 5 on page 28.)

Respondents were asked what the counteroffer typically comprised. Organizations were most likely to offer base salary increases, a restructuring of the job with increased job accountabilities, training and development opportunities and cash-based retention bonuses. Results indicated that forgivable loans,

FIGURE 2 **Counter-Offer Circumstances**

Under what circumstances are counter-offers made by your organization?

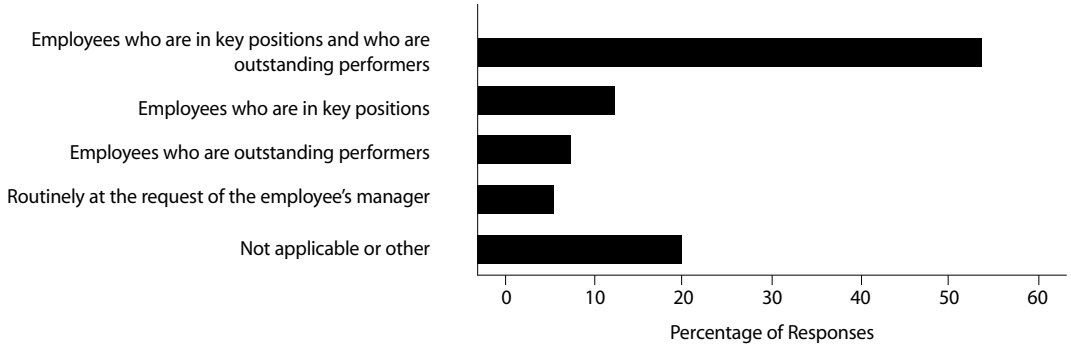


FIGURE 3 **Counter-Offer Acceptance**

Based on your experience at your current employer, how likely are employees to accept counteroffers?

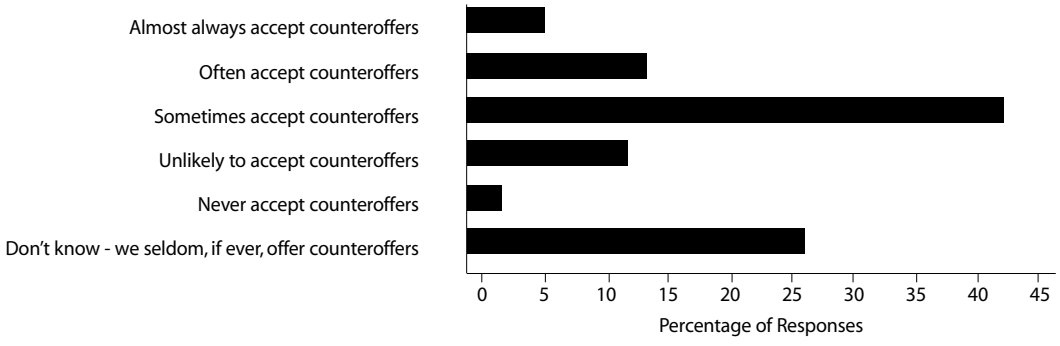


FIGURE 4 **Counter-Offer Outcomes**

When employees accept a counteroffer, what is the most likely outcome?

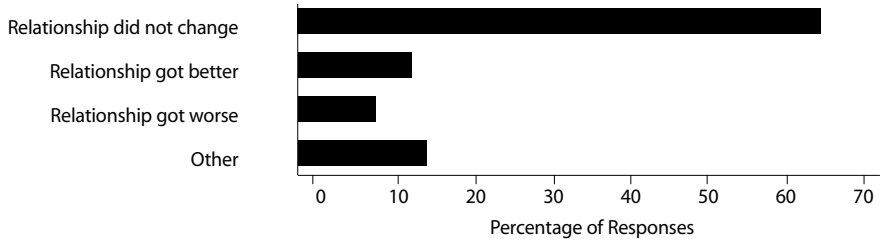
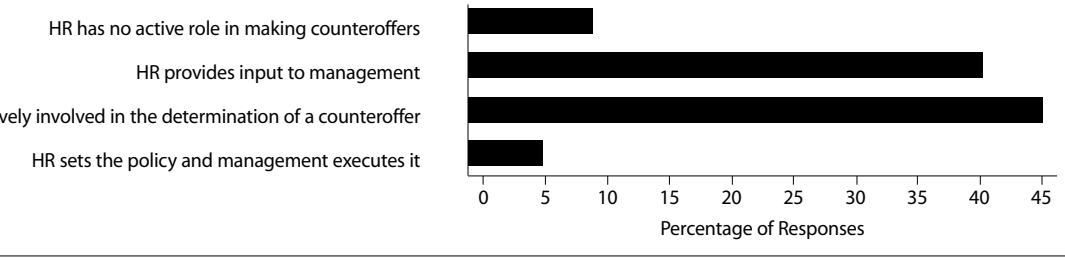


FIGURE 5 **Counter-Offer Development**

How actively involved is HR in the development of counteroffers?



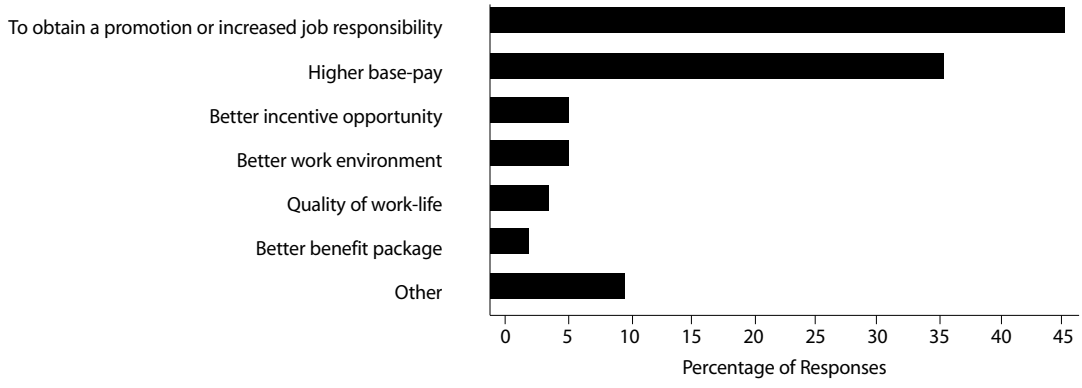
restricted stock, stock options and special perquisites seldom were offered.

As shown in Figure 6 on page 29, these responses are consistent with why respondents believed that high performers or employees in critical positions were most likely to consider or accept an offer from another company.

For those organizations that made counteroffers, respondents were asked to assess their effectiveness. A large majority of organizations (82 percent) indicated that their approach was not effective or marginally effective. Only 2 percent indicated that their approach was very effective. Moreover, only a third of the respondents indicated that they were satisfied or very satisfied with

FIGURE 6 **Counter-Offer Consideration**

Why do high performers or employees in critical positions consider or accept an offer from another company?



the way their organizations handled counteroffers, and more than half (51 percent) indicated that counteroffers created problems in their organizations.

Respondents indicated a variety of perspectives on how they measured counter-offer effectiveness, with employee acceptance of the counteroffer, not disrupting business operations and retention of the employee for at least three years after the counteroffer is made all being prevalent measures.

Of course, one way to avoid the possible problems inherent in making counteroffers is to reduce the likelihood that employees will consider job offers from other organizations. Respondents were asked to identify which programs they used to retain their top talent or critical employees and then to evaluate that program's effectiveness. The most frequently used programs included identifying key employees, keeping key employees appraised of future opportunities within the organization and actively developing employees who could replace key employees. Each of these programs was identified as reasonably effective. The least-used programs included paying key employees substantially above the market, providing mentors for key employees, providing retention bonuses and providing forgivable loans. These programs were evaluated as slightly less effective then the more frequently used programs.

The implication here is that integrated talent development and succession planning systems, work culture sensing and job-person alignment processes are long-term and high-impact activities where HR and line management have significant leverage in retaining key employees. Compensation focus areas, such as paying substantially above the labor market and provision of retention bonuses, are viewed as less effective.

Survey results indicate that while a significant number of organizations use counteroffers, few have developed a strategy or formal policies that are understood by management. Thus, it is not surprising that the majority of respondents were not satisfied with their counter-offer strategies and even fewer deemed them effective.

Counter-Offer Strategy and Process

An effective response when key or high-performance employees get job offers from other companies requires a counter-offer strategy and process that systematically:

- Identifies outstanding performers in key roles who may be at risk of leaving the organization
- Specifies a general response strategy depending on the performance, potential performance or criticality of the employee
- Obtains the necessary information to formulate an employee-specific response

- Responds appropriately given employer strategy, importance of retaining the employee and employee requirements.

Identification. Managers often become aware of employees who are actively searching for another job, or who have received an unsolicited job offer, when the employee announces that he or she is considering accepting the job offer. A counter-offer strategy and policy can reduce the response time and ensure that a systematic decision is made concerning the appropriateness of a counteroffer. Organizations that follow a reactive approach increase their risk of losing employees who already have made up their minds to leave or are at least giving the decision to leave serious thought. A more effective counter-offer strategy is to anticipate situations that might require a counteroffer, and take pre-emptive action.

Pre-emptive action involves identifying employees that management is committed to retain and trying to anticipate their dissatisfaction with development and advancement opportunities, work environment and pay.

Counter-Offer Strategy. If it is determined that an employee has received a job offer from another organization, is actively searching for a new job or is seriously considering leaving, then management must decide upon a general strategy for dealing with the employee. A review of the employee's performance, the criticality of his or her position and the availability of a qualified replacement should provide enough information to determine if the employee is a 1) "must retain," 2) "would like to retain" or 3) an employee that the firm is better off without. If the employee falls in the category of a "must retain" or "would like to retain," then additional information should be collected to formulate a strategy for retaining this person.

Information Collection. The ability to accurately discern why an employee would leave the organization is crucial in formulating an effective individual retention strategy. Knowing whether the person is concerned about compensation, management, quality of work-life, career opportunity or personal considerations may be difficult to discern since some of these issues are considered personal or perhaps "politically incorrect." Selecting the right person to talk with the employee is important since the reason the employee is leaving may be a supervisor or someone with whom they work.

If compensation is at least one of the reasons the employee is considering other job opportunities, the pay package should be reviewed. Inequities may have evolved for a variety of reasons. Internal pay increases may not have kept up with the external labor market or the employee's job has expanded such that the position is no longer paid appropriately relative to either internal or external comparisons. Of course, appropriate adjustments should be considered for employees considering other job offers, and the reason this occurred should be examined.

If the employee is considering other job opportunities because of a work situation or quality of life issue, these need to be explored so management understands exactly what these issues are.

Management Response. At this point, management needs to decide if the employee considering other job opportunities is a key employee it absolutely does not want to lose or an employee the organization wants to retain for less urgent reasons. If the latter is the case, management should help the employee compare the job offer with what he or she currently has and discuss future opportunities that may become available to the employee. If the organization has an employee who left the company to find the grass was not greener on the other side, and has since returned, the individual who is considering leaving could be recommended to consult with that employee. Even after an employee is lost, the documenting and analyzing of why individuals leave the company is a valuable step. It can be an invaluable practice for an organization to accumulate and analyze this data to recognize symptoms and treat the root cause of employee departures.

If the new job does not meet the former employee's expectation, perhaps he or she would be interested in returning.

If the organization is committed to retaining the employee, even if that person has an offer in hand, management needs to determine if all related parties to the individual will be able to work productively if the counter-offer is extended and accepted. Concerns to be addressed include:

- Has the organization lost confidence or trust in the individual who considers leaving the organization?
- Will the increase in pay or improvement in working conditions trigger feelings of ill will from the individual's peers, especially if he or she will now be making significantly more money then they do?
- Will the counteroffer set a precedent for others in the organization and trigger the same behavior from other employees?
- Will the pay increase create an internal inequity issue and compromise the integrity of the organizational pay structure?

If it makes sense to extend a counteroffer, the information collected earlier should help construct a counteroffer that the employee will accept. Non pay-related issues can be more difficult for an organization to address than strictly pay. If the issue is incompatibility with a supervisor, can the individual be reassigned to another manager? Can the organization promote or provide greater development opportunities for the individual? Can the individual be transferred closer to home or be allowed to work from home? Many of these solutions could run counter to current corporate policies and could set precedent for other employees to demand similar accommodations, so these decisions need to be made carefully.

If an organization truly believes an individual is special, it can make an effort to stay in contact and gauge his or her satisfaction at the new employer at a later date. If the new job does not meet the former employee's expectation, perhaps he or she would be interested in returning. Similarly, if a job in the organization becomes available that would interest the departing individual, perhaps he or she would return for it. If these scenarios appear reasonable, the organization can contact the individual on a regular basis to gauge his or her satisfaction.

In some instances, it might be advantageous if an individual is able to gain valuable knowledge or experience that he or she would not be able to attain within the organization and then return to the business as a more valuable resource.

Determining the flight risk for each person is a nebulous task and requires a degree of insight about the individual's job and personal situation.

One final issue to which management should give careful consideration is what to communicate to the colleagues of the employee who is made a counteroffer. Employees who are unhappy at work or who consider leaving for other reasons often will communicate these feelings to friends at work. How colleagues interpret management's decision may vary substantially, and potentially affect their expectation of receiving a counteroffer themselves. A formal policy about who may receive a counter-offer can increase predictability and may encourage employees likely to receive a counteroffer to come forward before they search for other employment or before they commit to an unsolicited job offer.

There are numerous potential problems when a company is forced to make a counter-offer. An effective approach to reduce exposure to these pitfalls is to minimize their occurrence.

Reduce the Need to Make Counteroffers

Of course, developing a pay structure and work environment that clearly positions a firm as an employer of choice is going to reduce the need for responding to employees leaving the organization. However, key people often have special skills and work records that make them highly desired by other organizations. The organization's first step should be to create criteria for defining which employees are key based on criticality, impact of their role, difficulty in replacing, or performance and long-term potential. These are individuals who management would consider a substantial loss to the firm, and thus, would consider making counteroffers if they were planning to leave the organization (Wells, 2003).

Once the criteria are known, the organization should consider the probability that these individuals might seek opportunities at other organizations, or in other words, determine their "flight risk." Determining the flight risk for each person is a nebulous task and requires a degree of insight about the individual's job and personal situation. Questions that should be answered relative to the individual's job include:

- Does a large internal or external market for similar positions exist?
- Does the position have a history of a high rate of turnover?
- Is the position's pay competitive to the external job market?
- Is the position's pay perceived to be equitable within the internal environment?
- Is the manager the position reports to a difficult person with whom to work?
- Does the position involve high-stress situations?

Questions that should be answered relative to the individual's unique situation include:

- How "in touch" is the individual with the competitive job market?
- Does the individual have a history of jumping from organization to organization every couple of years?
- Is the individual a risk seeker or a risk avoider?
- Has the individual experienced a personal event such as marriage, parenthood, divorce, or attainment of advanced degree or certification that might make leaving his or her current job or location attractive?

When the organization has identified the counter-offer criteria and potential flight risk of individual employees, it can take control of its counter-offer environment by reducing a key individual's flight risk or devising a contingency plan for key individuals who potentially will leave the organization. It is important to recognize that the plan or approach may be different for each individual.

The first strategy is to simply maintain open communications with strategically important and top-performing employees to understand their issues and concerns. Managers frequently should engage key employees and talk about their career and professional development expectations within the organization. The individual's personal situation could be an important issue if the individual has to travel a long distance to get to work, if housing is expensive or difficult to acquire for relocating individuals or if the individual is having family issues. Identifying a specific mentor for each key employee can formalize a needed communication link for the organization.

Communication among managers about key employees also is important. Gathering managers to discuss an employee's capabilities and development can shed light on who exactly are the top performers. Gaining other managers' insights and assessments about employees' performance can help reduce halo effect and provide a more accurate picture of the individual's contribution.

A second approach is to develop a comprehensive talent supply pipeline and succession plan for the organization's key positions. If individuals have been identified and are capable of replacing critical employees, this will reduce the need for organizations to proffer panicked counteroffers. Also, counteroffers are moot if an employee dies or is disabled. If critical positions have one or more viable candidates who could successfully fulfill the position's requirements, the organization has taken substantial control over its counter-offer environment. Further, a succession plan builds a talent pipeline of future organizational leaders. These individuals then can be groomed through training, opportunities to participate in organizational projects and exposure to the organization's strategic decision-making process (Wells, 2003).

A third approach for controlling the counter-offer environment is to offer key individuals career development, career coaching and advancement opportunities. Outlining a plan of advancement and opportunity for these individuals often can fulfill the needs that drive individuals to seek other employment. Partnering with an employee and showing an interest in his or her career path can go a long way in creating organizational loyalty, which is increasingly harder to come by today.

A fourth strategy is ensuring that compensation for this group is competitive in the marketplace and is reflective of the duties and responsibilities that person has within the organization. Pay dissatisfaction is not based only on external comparisons but may be the result of pay comparisons the employee has made with other employees within the organization. A competitive compensation program that is perceived as internally equitable probably is one of the most important lines of defense in terms of retaining talent.

Organizations that require a more aggressive approach to control their counter-offer environment can offer retention bonuses for critical employees. For

example, Sheila's critical employee could be offered restricted stock or other long-term incentives.

Other compensation strategies for retaining key employees are to offer retention loans, stock options or restricted stock grants. These approaches offer a long-term solution with options and restricted shares vesting or being awarded over multiple years. The options and shares tie the individual to the organization for a long period of time.

Conclusion

Counter-offer situations are difficult and often can lead to poor decisions, especially if decisions are ad hoc and made in a "crisis" situation. An organization can take control of these situations by developing a work environment where counter-offer situations occur infrequently. Even within excellent work environments, counter-offer situations can develop. The organization should have a plan that details a course of action to be taken when these situations arise. With a counter-offer process in place, a thoughtful execution of the plan should provide the best decision available for everyone involved. WJ

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