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Keywords

job, human resource, management, employee, work, firms, talent, war, labor, market

Comments

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In the Trenches at the Talent Wars: Competitive Interaction for Scarce Human Resources - A Qualitative Study

Timothy M. Gardner

Working Paper 00 – 18



In the Trenches at the Talent Wars: Competitive Interaction for Scarce Human Resources

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Abstract

The purpose of this paper is to examine how firms are competing for scarce human resources in the talent wars. First, the paper makes the distinction between responding to labor shortages with investments in recruiting and retention and directly competing against identified labor market competitors for scarce human resources. It appears firms compete with rivals in the open labor market and in initiating and defending against talent raids. The process of identifying and responding to the tactics of labor market competitors is reviewed for both types of direct competition. Firms tend to respond to rivals' tactics either by changing the employment relationship with threatened employees or engaging in tactics to influence the behavior of the competing firm. Factors that determine the propensity and type of response to competitor's tactics are reviewed and integrated. The greater the threat posed by the rival's tactics the greater the likelihood affected firms will respond with externally as opposed to internally oriented tactics. The greater the skill mobility of threatened employees, the more administrative and financial resources will be invested in the counter-response. Finally, firms use a variety of preemptive tactics to reduce the threat of talent raids. These tactics are listed and explained. The paper concludes with recommendations for firms seeking to gain or protect advantage relative to rivals in the war for talent.

The key resource for firms competing in the new economy is no longer land, capital, or hard assets but the human capital necessary to adapt organizations to global competition and maximize the benefits associated with the current technological boom. After years of saying that people are their greatest resource, American corporations are beginning to mean it. The connection between human capital and financial success is not a secret held by a few firms but an understanding shared by top management teams across all sectors of the economy. Currently, the American economy is undergoing the greatest labor shortage in the last 30 years. This combination of a better understanding of the value of human capital and its simultaneous shortage is forcing firms to aggressively compete to acquire and retain talent to maintain operations and continue to grow. The purpose of this study is to develop a better understanding of how firms are competing for this valuable but scarce resource.

Rather than examining how firms are simply responding to the labor shortage, it is important to understand how firms are competing with their rivals for scarce human resources. Strategy, including human resource strategy, involves the acquisition, development, and deployment of resources while anticipating and responding to a large variety of market forces. Strategy also involves anticipating and responding to the tactics of direct competitors in an effort to maintain competitive parity and incrementally build sustained competitive advantage. A basic knowledge of the dynamics of interfirm competition, the fundamental unit of competition and strategy, is an important component of strategic management (Chen, Smith & Grimm, 1992; MacMillan, McCaffery & Wijk, 1985). This paper explores how firms compete with direct competitors for scarce human resources.

To study these dynamics, 25 recruiters, headhunters, employment managers, and top human resource executives from 22 companies from a variety of industries were interviewed. The methodology used to identify and interview informants is detailed in the appendix. Informants were identified through a variety of contacts at Cornell University and the presidents of three regional human resource associations. Each informant was asked to participate in a qualitative study to better understand how firms are responding to the current labor shortage in

the context of competing with their rivals. A series of standardized questions was used to begin the conversations but primarily each informant discussed in their own way how their firm competes against identified rivals for human resources. A complete list of participating companies is listed in the appendix.

This report is organized as follows. Section I, "The Talent Wars," documents the factors contributing to the labor shortage and the intense competition for human resources. Section II, "In the Trenches," examines how firms are identifying and responding to competitors' actions. Factors that influence these competitive actions are also explored. Section III, "Protecting Human Resources from Competitive Pressure," details the proactive steps these companies are taking to reduce competitive pressures.

I. The Talent Wars

One indicator of the current labor shortage is the number and variety of ways businesses seem to be advertising for employees. Companies are advertising for workers on sales receipts, menus, in radio and television commercials, with direct mailings, and on billboards. Nationwide, the unemployment rate is hovering around 4%. Of the 304 metropolitan areas tracked by the Department of Labor, 222 reported unemployment rates lower than 4%. Twenty-nine of these areas reported rates below 2% (United States Department of Labor, 2000). Demographic and economic trends suggest these shortages will not be short-lived. Over the last 30 years, the economy has grown by 200% while the American birthrate has dropped by 24% (Leonard, 2000). The Bureau of Labor Statistics predicts that the American economy will continue to grow at the rate of 2.4% per year for the next eight years while the labor force is only expected to expand by 1.2% per year resulting in fewer workers to fulfill economic needs (Oldham, 2000). In addition to demographic trends, rapid changes in the product markets deter firms from retraining current employees and force them to search for ready-to-work talent through aggressive recruiting and hiring in the open labor market (Cappelli, 2000). Finally, small and mid-sized companies have greater access to flush capital markets allowing them to

offer pay and benefit packages on par with large companies (Cappelli, 1999). The current conditions of low unemployment, economic growth, and aggressive competition for workers has been called “The War for Talent” (Chambers, Foulon, Handfield-Jones, Hankin & Michaels, 1998). It appears this war will escalate.

When economists discuss competition for scarce resources, including scarce human resources, they generally mean one of two things. Competition is frequently discussed as an impersonal force that affects the price and quality of good and services. For example, U.S. anti-trust policy is founded on the notion that as the number companies offering a similar product increases, prices are pushed down to the lowest sustainable level. Considered this way, competition is thought of as a “force” that increases the efficiency of the production and distribution of goods and services (McNulty, 1968). Alternatively, competition can be thought of as interactions between rival companies. Firms are aware of their main competitors and implement strategies corresponding to these firms’ actual and predicted actions to gain and sustain competitive advantage (Baum & Korn, 1996; Lomi & Larsen, 1997; McNulty, 1968; Porter, 1980). “[C]ompetition to the businessman is whatever he has to do to get business away from his rivals and whatever they do to take sales away from him” (Dean, 1954, p. 108). Airlines, for instance, will cut prices and enter or exit specific routes depending on the predicted actions of their rivals. Red Hot hot-sauce, as another example, has stolen substantial market share from Tabasco with the introduction of innovative new tastes; Tabasco has responded with new flavors of its own (D’Aveni & Gunther, 1994).

Interestingly, most of the attention on competitive interactions has focused on competition in the market for customers (e.g., Gimeno & Woo, 1996; Karnani & Wernerfelt, 1985). However in today’s competitive landscape, firms face battles on an additional front: the market for employees. The aforementioned labor market shortages have forced firms into engaging in a War for Talent, yet very little research attention has been aimed at the specific competitive actions firms take in this battle.

Thus far, discussions about the War for Talent have only considered diffused competition ignoring the tactics of direct competitors in the labor market. Consulting firms and the business press frequently encourage employers to adjust to labor shortages by improving working conditions and the employment relationship. Specific recommendations usually include increasing participation and autonomy, increasing pay and benefits, more aggressive and non-traditional recruiting, increasing the quantity and quality of top-down communication, and offering opportunities for training (Hannay & Northam, 2000; SHRM 1997). Depending on each employer's specific circumstance, these can be effective policies to attract, retain, and motivate a skilled work force in times of a talent shortage. These recommendations, however, ignore the possibility that direct competitors will respond by implementing similar or competing policies thus negating the benefits associated with these improvements. Human resource strategies for winning the talent wars must, most importantly, be linked to each firm's overall business strategy. Employers must also consider how their direct competitors might react to changes in strategy and must appropriately respond to the strategies of their rivals.

Some examples gathered from the business press are instructive. For instance, Netscape employees are flooded with snail- and e-mail trying to recruit them to work for other companies. Netscape has responded by attempting to recruit from these same companies (Jones & Schmit, 1998). Following aggressive poaching from local competitors and fearing more, Dynatek Automation Systems Inc., a Canadian instrumentation company, moved its headquarters from Toronto to Nova Scotia, a location with less competitive labor markets (Johnson, 1994). Trucking company J. B. Hunt, finding only the lowest quality workers in the open labor market, significantly raised starting wages to lure higher quality applicants from competing trucking companies (Cappelli, 1999). Competing trucking firms, unable to match the new starting wages, improved such quality of life amenities as comfort of the trucks, internet access, and subsidized calling cards to protect their drivers and lure drivers back from higher paying firms ("Trucking companies use", 2000). Nortel, the largest high-tech employer in Canada, used to hire 25% of the country's computer science and engineering students each

year. Lucent Technologies began luring Canadian science students with scholarships and internships; Nortel responded by offering similar programs to Canadian students (Pappone, 1999). As these examples suggest, competition for scarce human resources involves implementing policy changes in accordance with market signals of quality, scarcity, and price. Competing effectively also involves considering the impact on and reactions from competitors and responding to the policy changes of competitors that may impact the firm. The following section reviews the findings of a study examining how firms are fighting the talent wars. Specifically, I examine the innovative ways firms are responding to labor shortages and responding to the tactics of labor market competitors.

II. In the Trenches

The original purpose of this study was to examine how firms compete for scarce human resources in the open labor market. As it would have been impossible for informants to accurately describe how labor market competitors responded to the policy changes of their firm, interview questions focused on how informants' firms have responded to recruiting tactics used by competing firms. Thus, informants were asked (1) how they learned that their competitor had initiated a new or effective means of attracting applicants for open positions; (2) if and how their firm reacted; and (3) factors that influenced their firm's ability to respond effectively. In addition to this information, many of the informants described tactics their firms used to reduce outside competitive pressure; these are described in a separate section.

Several of the informants confirmed the validity of this type of study in describing the philosophical changes taking place within their firms with regard to the recruiting function. It appears there has been a paradigm shift in the philosophy and methods used to recruit potential hires. We'll call this the shift from "personnel psychology" to "consumer psychology." The personnel psychology model assumes there are pools of qualified applicants readily available in the open labor market. The goal of the organization is to use standardized techniques to identify and screen qualified from the unqualified applicants and motivate and direct the

performance of selected employees (Spector, 2000). The consumer psychology paradigm, as described by the informants, assumes a limited supply of talent in the labor market with specific needs and desires and a variety of firms competing to meet those needs. The organization's mandate is to develop, communicate, and implement customized employment relationships that appeal to the prospective work force while being competitive with the offerings of other firms.

This philosophical change is manifest in the use of marketing based strategies to develop and communicate employment relationships and precisely identify the locations of qualified candidates. Several informants mentioned using market research firms to assess and manage labor market participants' image of the company. Firms appear to be interested in the perceptions of both new graduates and experienced workers. Multiple informants mentioned using market research firms to focus recruiting efforts on geographic locations with concentrations of workers with needed skills. Other firms are using web-based technology to identify passive candidates within competitors' firms and focusing their recruiting efforts on these potential recruits. This focus on viewing applicants as consumers of a variety of "employment experiences" forces employers to pay attention to the tactics of competing firms and engage in direct competition for scarce human resources.

When discussing direct competition in the talent wars, informants typically differentiated between two types. First, employers compete with each other for active and passive candidates in the open labor market. For example, company A might begin on-campus recruiting one month before rival firms. The next year companies B and C might respond by beginning the hiring season even earlier and offering larger signing bonuses. Second, employers must prepare for and respond to raids on their employees by competing firms. The business press is full of examples such as Microsoft and Borland, SAP and Siebel, and Cisco and Sun. The means of identifying and responding to such attacks are different for each.

Direct Competition in the Open Labor Market

Sources of Information About Competitor Tactics

It would be incorrect to assume that all the firms in this study proactively seek information about competitors in order to prepare for and respond to competitive threats. More commonly, an event or series of events forces the employment manager to break from routine and examine the competitive landscape (Dutton & Jackson, 1987). One event that forces managers to consider their competitors is a change in some indicator of recruiting effectiveness. This might include a decrease in the number or quality of applicants for open positions, a decrease in the number of accepted offers, or increased costs in maintaining adequate applicant flow (Rynes & Barber, 1990). Other events that triggered information search include the entry of new competitors in the local labor market and expansions by current competitors.

Once the search for information begins, the most commonly mentioned source of information about the tactics of labor market competitors was the informal networks of the recruiters and employment managers. Informants mentioned tapping into networks structured around local and national HR associations, former employers, community ties, and other professional associations. It does not appear employment managers are systematically seeking information about competitors from these sources but basing their decision to collect additional information on the bits of information collected through the grapevine.

For the on-campus market, career services personnel were mentioned as an excellent source of information. Career services staff can provide information about expected salaries, tactics of competing firms, and students' requirements. Such offices are also a good source of survey data of trends from years past.

Another source of information is the job applicants themselves. Three firms mentioned asking job candidates to share the names of the other firms where they were interviewing, how they learned of the company, and details about the recruiting process. Applicants that are hired are sometimes asked to evaluate the recruiting process of the new employer in comparison to other firms they considered. The process of gathering information ranges from highly informal

to formal. Informally, an employment manager might quiz her recruiters about what they have heard from job candidates. More formally, an employment manager might systematically question applicants following the formal interview process.

Finally, two informants stated that job fairs are a source of information about the actions of competitors; although both admitted this was not a key source of their competitive intelligence. Information is collected through up-front benchmarking requests or by posing as candidates seeking jobs.

A small number of firms indicated that they paid no heed to the recruiting tactics of their competitors. Without exception, the companies of the informants making these statements were large, successful industry leaders. They stated the size, reputation, and variety of opportunities offered by their firms allowed them to recruit a sufficient number of quality applicants. Second, they felt that direct competitors for the same skill set could have very little impact on their recruiting success thus there was little to be gained by tracking their activities. Third, these informants stressed they did not respond to competitors and therefore did not seek information about their actions. They stated they acted proactively to labor market trends forcing their competitors to respond to them. In the exceptionally tight IT job market, these informants admitted to making changes in the recruiting and management of these employees but this was driven by changes in the overall labor market not the tactics of specific competitors.

Responding to Competitors' Tactics

Once a firm determines that a competitor has changed recruiting strategies, decision-makers face three choices. First, they can choose to respond or not respond. Contrary to the expectations of this study, most of the participants in this study indicated they did not respond to actions taken by their direct competitors. Clearly, firms respond to changes in the broader labor market; however, most informants felt that the strategies of direct competitors have no impact on recruiting outcomes at their firm. First, in the eyes of employers, labor markets are highly segmented. One firm may begin aggressively recruiting JAVA programmers with stock options, lotteries, or other gimmicks. This may have no impact on another firm as they might require

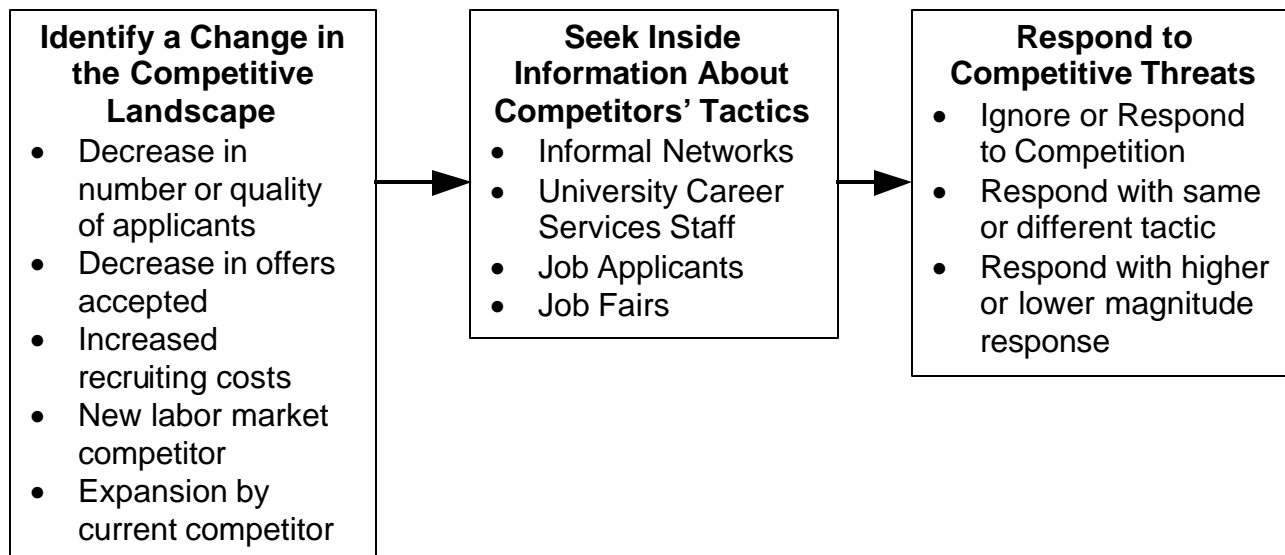
C++ programmers. Second, unless the competitor is expanding the business at an exceptional rate, it is unlikely one company's successful recruiting strategies will have a substantial impact on the total number or quality of persons with specific skills in the labor market. This is in contrast with competition in the product market. If company A introduces a better product at a lower price, company B must respond or risk losing a substantial portion of market share. Finally, even if one competitor can impact the labor market, most skills are at least temporarily substitutable or non-traditional sources of labor can be tapped. The use of low security prisoners for low skill jobs is an example of this type of substitution ("Tight Labor Market," 1999).

Notwithstanding the above, several of the companies in this study described times where they had responded to the tactics of their competitors. Thus, once they have made the decision to respond, a second choice deals with the type of response. Responding tactics can be classified as imitative or non-imitative. An imitative response is one that mimics the tactic used by the competitor. Examples include the spread of the use of the signing bonus in college recruiting, first to MBA and other professional schools and finally to undergraduate students. Other tactics that have been quickly imitated include exploding job offers, rapid hiring (short time between initial interview and offer), and the use of stock options for non-managers. A non-imitative response differs from the competitor's tactics. An example of a non-imitative response would be responding to a rival's increased signing bonus by making early job offers. Most of the examples of responding to competitors' actions collected for this study involved imitation.

Finally, a third way competitive responses can be described is by magnitude. Magnitude is the amount of resources invested by the firm responding to the tactic of the direct competitor. Investments include both financial and administrative resources. All the examples of action and reaction described by our informants were of small magnitude. For instance, one firm described increasing base pay following a publicized pay increase by a competitor for phone center employees. Another informant mentioned improving the terms of the employee referral bonus following several competitors in the area. Several informants mentioned changing on-campus

recruiting tactics following minor innovations introduced by their competitors. The process of identifying and responding to competitors' tactics is illustrated in Figure 1 below.

FIGURE 1
Identifying and Responding to Competitors' Tactics in the Open Labor Market



As can be surmised from the above discussion, most of our informants felt there was little to be gained from tracking and responding to the actions used by direct competitors to improve the attraction of candidates from the open labor market. There is a widely held belief that broad labor market trends have a greater impact on recruiting outcomes and that the cost of information gathering and responding outweighs the benefits. However, when direct competitors attempt to improve their recruiting by targeting their competitor's pool of employees, this constitutes an event worth tracking and responding. The next section explores this phenomenon.

Raids on the Pool of Human Resources by Competitors

The book The New Deal at Work by Peter Cappelli (Cappelli, 1999) lists a variety of indicators that the social norms that once constrained labor market competitors from targeting and hiring each others' employees are breaking down. Cappelli cites: (1) a number of surveys showing that firms are increasingly hiring fully trained workers from their competitors rather than

developing them internally; (2) the rise in the use of “golden handcuffs” for both managerial and technical talent and the propensity for competitors to buy these out (called “golden hellos”); and (3) the dramatic rise in the number of headhunting firms and the revenues generated by this industry over the last 10 years. To this should be added is the large number of lawsuits filed by firms against their competitors for poaching. Poaching a competitor’s employees has become a common source of conflict in the talent wars.

As commonly defined in the professional recruiting industry, ‘poaching’ involves targeting and hiring one or two key employees from a competitor. A ‘raid’ involves targeting a competitor’s pool of employees as part of a targeted recruiting effort (Sullivan, 2000). Other than competing on salary, little can be done to prevent the poaching of highly valuable employees. Thus the focus of this study will be on identifying and responding to full scale raids.

Sources of Information About Competitor Actions

Far and away, exit interviews were the most commonly mentioned means of determining that a competitor was raiding informants’ employees. Most companies use exit interviews to identify the internal conditions pushing employees to look for other employment (bad supervisors, working conditions, etc.) and to identify labor market trends not picked up in salary surveys (Knouse, Beard, Pollard & Giacalone, 1996). Contrary to popular trends, many of the informants in this study are using exit interviews as an early warning system alerting them to the actions of their competitors. One informant stated that exit interview information is so important to his firm he will query former employees’ co-workers if he cannot identify the circumstances surrounding the departure. Another informant stated she offers \$100.00 gift certificates for the company’s products to departing employees in key jobs in exchange for the completion of an exit interview survey.

In addition, existing employees who were targets of a raid were mentioned as an important source of information of competitors’ raiding activities. Two companies mentioned that targeted employees have informed management when the department was receiving calls

from a competing firm. Agilent Technologies offers reporting bonuses to employees who inform management when competing firms attempt to contact them (Lublin, 2000).

Several firms mentioned they did not have to look too hard to determine they were the target of a raid. Visible competitor tactics included: placing flyers on employee windshields, erecting billboards near company facilities, mass e-mails to all employees, and planes flying over company facilities with banners advertising job opportunities. Although this means of identifying a raid was not mentioned as frequently as exit interviews, it is likely most raiding companies are not very subtle in their raiding activities.

Finally, several companies mentioned that they automatically anticipate a raid whenever an employee leaves the firm to start his or her own business. Past experience has demonstrated to four of the informants that people who start their own businesses will try to contact former coworkers to encourage them to join the new business. One informant mentioned that her firm is working on a program to identify employees working to start their own businesses to prevent them from doing so using company resources and prepare for the inevitable raid.

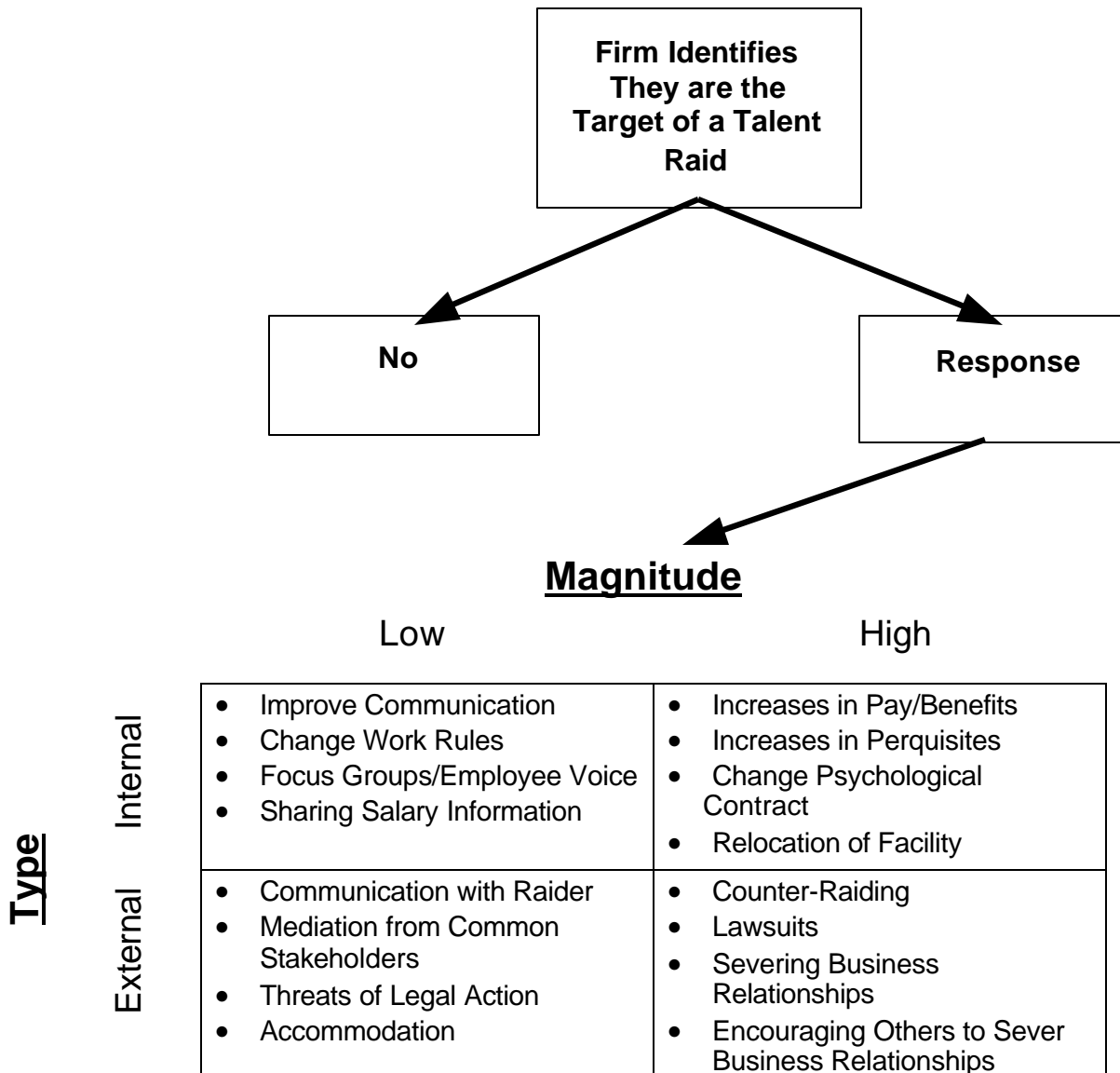
Responding to Raids

Responding to competitors' raids appears to be different from responding to tactics in the open labor market. As above, decision makers can choose to respond or not respond. Firms that choose to respond may either direct their actions internally or externally. Companies that respond internally attempt to change the conditions inside the organization to reduce the effectiveness of the current and future raids. This might include improved communication, changing work rules, increasing pay, or tactics to keep raiders from contacting the organization's employees (i.e. increased phone security). Companies responding externally seek to influence the current and future behavior of the raiding company. External tactics may serve to reduce raids by other competitors as well. These tactics can include cooperative behavior such as contacting the raiding firm and asking them to stop or such aggressive

responses as counter-raiding or filing a lawsuit. Finally, responses can vary by magnitude, or the investment in administrative resources in the response.

Examples of high/low magnitude and internal/external tactics will make the above distinctions more clear. An example of a low magnitude-internal response would be delivering communications to employees endangered of being raided. A high magnitude-internal response might (1) involve a large number of low-magnitude tactics or (2) one or two administratively or financially expensive changes such as significant increases in pay, benefits, or perquisites; relocation of the facility; or significant changes in the psychological contract (i.e. a no layoff policy). Low magnitude external responses would include attempts at improved communication with the raider, seeking mediation assistance from common stakeholders, or accommodation in hopes of appeasing the raider. High magnitude external responses might include counter-poaching/raiding the raider in the same or different labor market, filing a lawsuit, severing existing business relationships with the raider, or urging other firms or common stakeholders to sever business relationships with the raider. Figure 2 illustrates the possible combinations of these response patterns.

FIGURE 2
Target Company Response Options to Talent Raids'



Two informants described using low magnitude-internal tactics in response to talent raids. The larger, more prominent organization communicated messages related to the stability, reputation, and opportunity of the organization compared with the uncertainty leaving for another firm. The smaller, less established firm, communicated messages of loyalty, camaraderie, and mission found in their current employment that may not be found in the next firm. Both firms using these tactics made a point of improving communication from upper

management and outlining the future vision of the firm. It is important to note that these firms delivered the company message to the targeted employees via direct supervisors rather than in a group setting.

One company, an admitted poacher/raider, described an interesting counter-counter-tactic to improved communication. Knowing that when the applicants they hire from competitors offer their resignations their current employer will attempt to convince them to change their mind, this company prepares these people with counter-arguments and responses to these efforts to improve the chances the resignation will be tendered and raid completed.

Only one informant described a response that could be classified as high magnitude, internally directed. The raiding company was a geographic competitor for a similar skill set but not in the same industry. Her firm went a step further than merely improving communication. Following the determination her firm was the target of a raid, focus groups were held with targeted employees to determine how working conditions could be improved. The organization responded by increasing base pay, changing the job titles, increasing the shift differential, and increasing the referral bonus.

External responses attempting to influence the behavior of the raiding firm are less common but still used by the companies in the sample. Three firms described using low magnitude-externally oriented tactics, one firm used a high magnitude-external tactic. In two of the three examples of low magnitude external responses, the source of the raid was a former employee who had either joined another firm with a lucrative employee referral program or started their own business. In both of these examples, the rival firms were geographic but not industry competitors. The targets' response was to have the raiding employees' former manager contact him/her, remind them that the company had treated them fairly, and simply ask them to stop (low magnitude). Both informants stated this is effective but were at a loss to explain why.

A third informant described initiating a talent raid on a large industry competitor not in the same geographic labor market. The target company's CEO contacted the raiding company's

CEO and requested the raids stop. The request was refused and the target CEO was told that, due to the current labor shortage, his employees were no longer off limits¹.

Two informants were unable to describe recent incidents where their firm had been the target of a raid but described incidents from previous employers that can be classified as low magnitude external tactics. Both informants stated that previous employers had been targeted for a raid and responded by contacting a peer in the HR department at a raiding firm or having the General Counsel or a member of the top management team will contact a peer of the raiding organization and ask them to stop. A related tactic is to have the legal department send a cease and desist letter to the legal department of the raiding firm. According to the informants, these tactic were effective in stopping the raids.

One informant described a response that could be classified as a high magnitude, external response. After determining her firm was the target of a raid from a very competitive industry rival, her firm began a counter-raid. This involved public advertisements encouraging the raiders' employees to apply for jobs at her firm and behind-the-scenes efforts to recruit and hire several of their employees. The informant stated the tactics stopped the most egregious raiding activity (contacting employees with mass e-mails) but probably did not stop the rivals' less public actions.

It was surprising to find only one example of a high magnitude, external response, i.e. retaliatory poaching or lawsuits to stop talent raids. John Sullivan, an expert on talent raids and former Chief Talent Officer at Agilent Technology, claims counter-poaching the raider's talent, particularly recruiters leading the raid, can be an effective means of stopping current and future raids (Lublin, 2000; Sullivan, 2000). One informant admitted counter-poaching had been discussed but not used for fear of escalating the war. The lack of the use of lawsuits was surprising considering their prominence in the business press and the extensive use of employment contracts. One informant threatened to sue a former employee who was raiding the company to fill vacancies at his start-up but never took formal legal action.

Factors Affecting Competitive Response

A number of factors appear to affect how organizations will respond to rivals' tactics in the open labor market and raiding tactics used by competing firms. These factors include attributes of the affected firm, attributes of targeted employees, and attributes of the competitor. Factors that generally appear to affect response propensity to labor market and raiding tactics will be reviewed first. The next section will attempt to identify the factors that influence the type and magnitude of response to talent raids.

Factors That Affect Response or Non-Response²

As previously mentioned, a key attribute of targeted firms that affects their likelihood of responding to rivals' tactics in the open labor market is its size and success. This may be due to the culture and history of these firms. Informants from both new and old economy firms indicated their record of success blinds their top management teams to real threats posed by smaller or less successful rivals. Past success may provide a temporary competitive advantage but inactivity in the face of competitive rivals may lead to future failure.

Another firm attribute that may affect competitive response to competitors' tactics is a culture of internal equity with pay, perquisites, and benefits that prevents firms from responding to competitive threats. Two informants indicated they do not have the flexibility to develop customized employment relationships to compete with more agile firms and cannot afford to make changes for all the incumbents. It is arguable that firms bound by HR policies that prevent effective response to increased rivalry from direct competitors will soon face a severe disadvantage in the recruiting and retention of scarce human resources.

A third firm factor is the centralization of the HR function. It appears that organizations with highly centralized HR departments are less in touch with labor market dynamics than firms with more decentralized functions. Such centralization can reduce administrative inefficiencies, standardize messages, reduce the costs of advertising, and centralize the recruiting competencies. These benefits may come at a cost, especially for organizations with widely dispersed operations. For most types of talent, direct and indirect labor market competition is

concentrated at the local level. Organizations with a centralized HR will be unable to track or adequately respond to these challenges.

Several attributes of targeted employees may influence the way firms respond to rivals. Four key factors noticed in these discussions are the number of employees affected by the competitors' actions, the performance of the targeted employees, whether the employees work in a core business function, and the mobility of the employee skills. When discussing exit interviews, several informants asserted that the loss of two or more employees to the same company in a short period of time is a key indicator the firm has been targeted for a raid. If one or more of the employees are high performers or work in the core business of the firm there is a much greater likelihood of reaction of some sort.

Skill mobility seems to play a role in an organization's propensity to respond to competitors. Several informants said they pay special attention to competitors' attraction strategies for persons with shared, specific, valuable skills that can easily move from one organization to another with little loss of pay or responsibilities. Firms also appear to be sensitive to losing these types of employees to poaching or raids. A competitor that poaches a manager or technical person with general skills is unlikely to target other members of the organization. However, when the raider targets a skill set that is valuable and company-specific but still easily transferable, all employees with these skills are in danger of walking out the door. For instance, the skills of an investment analyst or outside sales representative are valuable and company specific yet easily transferable to industry competitors. This may be one of the key factors driving the intensity of competition for IT employees. For a large number of IT skill sets, the switching costs of moving from one organization to another are quite low intensifying both direct and indirect competition.

One of our informants stated her organization's response to competitors' actions differ depending on whether the employees threatened are employed in a profit or cost center. Since both the costs and benefits of cost center employees are spread over the entire organization, it

takes severe shortages or losses before influential departments are affected by rivals' activities. Whereas threats to profit center employees are tracked and promptly neutralized.

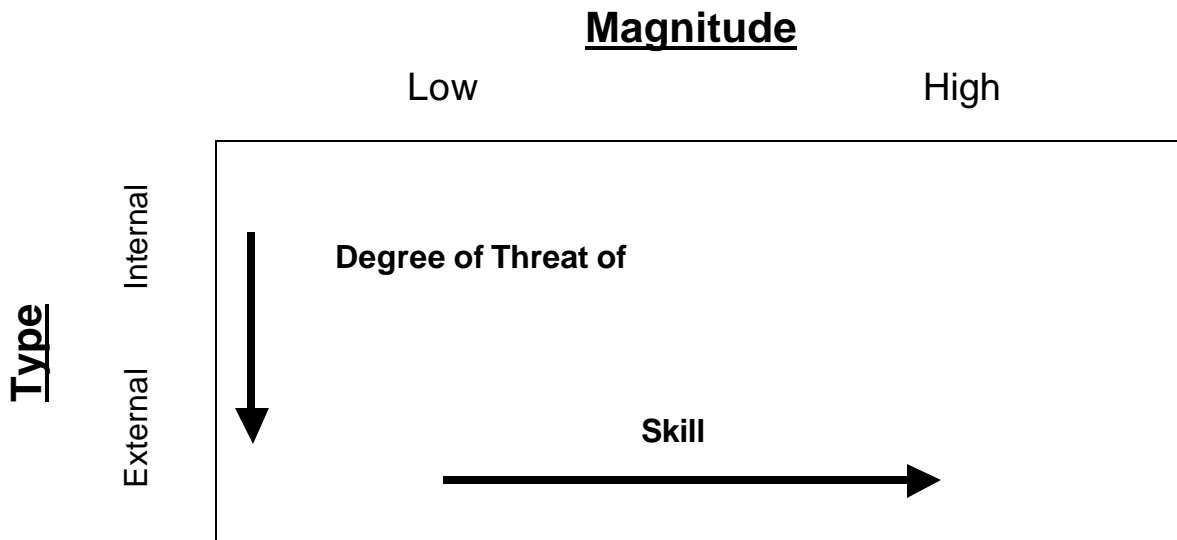
Informants mentioned two attributes of competing firms that appear to affect how targeted companies will respond to competitive threats. The actions of rivals that are industry competitors and/or local labor market competitors are more likely to lead to a response from affected firms. Such firms poses a double threat as they likely share the same talent needs and there is little cost for employees to move from one company to another.

Type and Magnitude of Response

To identify trends in the information provided by the informants that predict type and magnitude of response, detailed information about each incident was matched to incidents classified into the four response categories. For example, three informants described incidents where their firm responded to a raid with a low magnitude external response (see above). A brief summary of the incidents that led to this response was written up for each incident. This was repeated for the low magnitude internal responses, high magnitude internal incidents, and the high magnitude external incidents. Trends that might explain each type of response were identified.

Before proceeding, it should be made clear that the interpretations drawn from this analysis are highly subjective and biased by the small sample size, the procedure for identifying respondents, and the lack of systematic procedures for gathering information for each event. Even with these shortcomings, it is valuable to draw limited conclusions from the limited information. The conclusions drawn from this section are illustrated in Figure 3.

FIGURE 3
Factors Influencing Target Response to Talent Raids



It appears that the greater the perceived threat to the target firm from the raid, the greater the likelihood firms will respond with externally orientated tactics than internally oriented tactics. Consider the two informants describing high magnitude responses. The firm facing a threat from a geographic but not industry competitor with similar skill requirements used internal tactics (communication, pay changes, etc.). The firm targeted for a raid by an industry competitor used high-magnitude, external tactics (counter-raiding). It would appear that a raid from an industry competitor poses a greater threat than just a geographic competitor as not only does the target firm lose valuable employees but a industry competitor gains valuable employees possibly making them more competitive in the product market.

A similar trend can be found in the external and internal low magnitude responses; the greater the threat, the greater the likelihood of an external response. Two of the three low magnitude external responses involved former employees recruiting co-workers whereas this was not mentioned by informants describing low magnitude internal responses. There are at least two reasons why former employees pose a significant threat. First, they have inside information about the performance of employees allowing them to better target candidates for raiding than persons not affiliated with the firm. Second, the more employees that are recruited

by former employees the greater chance that these departed employees will also try to recruit former co-workers quickly compounding the problem.

Finally, it appears skill mobility plays a role in determining whether targeted firms use low or high magnitude responses. The two incidents of high magnitude response (internal and external) involved (1) employees with a special certification equally valuable at the raiding and target firms; and (2) technical employees of the two firms producing products for very similar product markets. The incidents described in the low magnitude incidents appeared to involve employees with more firm specific skills that were useful to the raiding firm but not as good of a match as the employees described in the high magnitude response incidents. The higher magnitude response may represent the firms' commitment to stopping the outflow of employees.

No trends could be identified that predicted type and magnitude of response from factors of the target firm (centralization of recruiting, pay equity). It is likely these factors play a role but there were too few examples to identify trends.

III. Protecting Human Resources from Competitive Pressure

While informants were questioned about responding to poaching, many of them stated they took specific steps to prevent poaching in the first place. As these were tactics to reduce diffused competition rather than tactics to gain advantage relative to specific competitors, they are dealt with separately. These "blocking" tactics represent proactive and preemptive strategies for preventing the loss of valued employees.

Several of the informants for this study were headhunters, employed by headhunting firms or working on contract with an employer. These informants were asked what firms did to keep them from stealing their employees. One of the standard methods is to have "sharp, well trained receptionists" answering the phones. A common poaching tactic is to call into the organization and ask to speak to someone in the accounts payable department, then have the person in accounts payable transfer the caller to the department with the targeted employees.

Frontline receptionists trained to identify headhunters and ensure all callers are transferred to specific people and not departments provide a solid first line of defense.

Another minor tactic mentioned was to ensure phone extensions are not sequentially ordered by department. If the extension numbers are sequential, a recruiter with the phone number of one contact in the department can call everyone in the department.

Lastly, the recruiting informants claimed that companies are sometimes their own worst enemy. Companies that send press releases with the names of employees who win patents, are promoted, are identified as employee of the month, or any other reward are likely to be targets to the professional recruiter. Some of the HR informants stated their organizations have an express policy of not identifying high performing employees in the press, on web pages, newsletters etc. A recent Wall Street Journal article identified several easy tricks recruiters use to generate complete staff lists from company web pages and how to protect this information (Silverman, 2000).

In addition, blocking techniques were discussed by the HR respondents. Two HR informants stated they try to protect their employees from headhunters by contracting for related services and securing non-compete agreements from these firms. One informant said he uses these firms for routine recruiting assignments; another requests market studies to secure non-compete agreements when they don't have recruiting needs. A third firm stated they have used this tactic in the past but found that (1) there are too many headhunting firms for this to make a difference (2) different divisions of the headhunting firms do not feel bound by the contracts of other divisions, and (3) some firms merely break their contracts.

Another blocking mechanism is to develop informal agreements with competitors not to target each others' employees. It is important to note these agreements do not preclude hiring each others' employees if they come through normal recruiting channels. Firms entering into these arrangements agree to refrain from targeting specific recruiting efforts at each other. One informant develops these relationships with competitors in the same geographic labor markets with HR managers met through professional or civic associations. Apparently, these

agreements are common between buyers and suppliers, business partners, and firms co-promoting consumer products.

When asked about blocking tactics, several informants stated that the fact their firms are large stable companies with a variety of amenities eliminated the need to engage in such tactical maneuvers. This is akin to another informant's comment that their company was an "employer of choice" with respect to pay, benefits, and working conditions thus improving their recruiting effectiveness and reducing the threat of loss from competing firms.

Lastly, two informants mentioned two especially creative, although maybe not the most effective, blocking tactics. One person admitted he has registered his company at job fairs being held near facilities with especially valuable employees even when the company is not in hiring mode. By registering, his company's name will appear on advertisements for the fair thus discouraging local employees from attending. Another informant's firm routinely sends recruiters along with technical staff to technical conferences. The express purpose is to have their technical people point out especially qualified employees for the recruiters to approach. However, there have been several occasions where a recruiter's presence has prevented other firms' recruiters from making the initial contact with the techie coworkers. Clearly, these are not either organizations' primary means of reducing competition but demonstrate the variety of ways firms are protecting their employees in the talent wars.

IV. Conclusion

While talking to one of the informants of this study about tracking the actions of competitors he stated "It sounds like the conclusion of your report will be that companies should do a SWOT (strengths, weaknesses, opportunities, and threats) analysis in the labor market to prepare for all contingencies. To me, that sounds like busy-work that keeps me away from my real job." The purpose of this study was to explore the talent wars from an entirely different angle. First, it is important to know whether firms interact with direct competitors for scarce human resources. Second, it is important to understand what this type of competition looks like

and what drives it. At this stage, the focus is on what companies are doing rather than what they should do.

It appears that the answer to the question of whether companies are competing with rivals for scarce human resources is both 'no' and 'yes.' With limited exceptions, it does not appear that firms pay close attention to the actions of rivals as they compete in the open labor market. There appears to be a certain amount of competitive interaction (primarily in the arena of college recruiting) but this is merely a process of minor innovations (exploding job offers, rapid hire decisions) followed by imitation by rivals (DiMaggio & Powell, 1983). On the other hand, the companies in the sample seem to track the actions of competitors and take counter-actions to protect their pools of employees from talent raids. The obvious difference is that firms do not expect competitors' actions and innovations in the open labor market to have an impact on their recruiting outcomes while companies expect that wholesale raiding will have a significant impact on firm operations.

When responding to raids, companies tend to make internal changes to the employment relationship with endangered employees or attempt to influence the raiders' behavior. The choice of type and magnitude appears to be a function of the threat posed by the raid and the skill mobility of the targeted employees.

These findings have implications for four groups of companies: (1) Companies implementing new or improved recruiting strategies in the open labor market; (2) Companies competing in the same labor markets as innovative competitors; (3) Companies contemplating a raid on their competitors' employees; and (4) Companies that are the target of a competitor's raid. Companies intending to improve recruiting in the open labor market (without targeting any one competitor) can be assured their actions will likely be ignored. When competing in small and more visible arenas (i.e. college recruiting) imitation by rivals becomes more likely. Companies seeking to extend the time between implementation of their strategies and imitation by competitors should refrain from unnecessary public communication of the innovation.

Second, firms should implement new strategies as a bundle of multiple tactics rather than one or two at a time to increase the difficulty of immediate imitation (MacMillan, et al., 1985).

There are lessons to be learned for companies affected by the innovations of their rivals. As it does not appear companies typically respond to the tactics of rivals, one lesson may be that there is little to be gained from tracking and responding to competitors' tactics.

Alternatively, under certain circumstances it might make sense to gather systematic information on the actions of rivals competing for especially valuable pools of talent followed by targeted counter-tactics to maintain a presence in the labor market and a certain amount of "labor market share." For example, Cisco recently began offering stock options to high-tech interns.

Competitors for this talent may want to consider responding with a set of tactics that both attract interns and encourage them to accept full time positions.

Companies contemplating a raid on their competitors should be particularly concerned with preventing counter-raiding and lawsuits. Although there is only one example of this in our sample, there are numerous examples in the business press. Raiding more than two employees will likely generate a response from the target organization; typically an internal response that has no impact on the raiding organization other than making future raids more difficult. The greater the mobility of the targeted employees and the greater the competitiveness with the targeted firm, the more likely there will be an aggressive response. If raiding is a necessity, the raider may want to consider disguising their activities by (1) Delaying the time between hiring each candidate (2) Approaching the employees of the same company using different headhunting firms or divisions; (3) Giving the poached employees different titles to disguise horizontal moves; (4) Coaching poached employees to disguise the nature of their new assignment during the exit interview. Lastly it appears that companies seeking to stop a raid with external strategies will first attempt to communicate their intentions through human resource, legal, or top executives. Raiders who cease their raids after these requests will likely avoid litigation and counter-poaching.

This study also provides some take-aways for companies that are the target of a competitor's raid. The importance of exit interviews cannot be overemphasized. There seems to be a lack of enthusiasm for exit interviews among HR professionals. Most say the information is of little value because employees are reluctant to state why they are *actually* leaving to avoid burning bridges. The purpose of exit interviews should be expanded to include developing a better understanding of the outside labor market as well as a means to understand the dynamics inside the organization. First, rather than simply focusing on *why* an employee leaves, exit interviews should seek to elicit *how* (i.e., how the employee was contacted, persuaded, and by whom, etc.) the employee came to the point of exit. This would provide information relevant to both blocking and competitive responses. Second, the informants in the sample indicated their organization either responded internally or externally to talent raids. There is no reason why these tactics could not be combined. Communications with both targeted employees and the raider might stop the loss of employees in the process of departure while discouraging future attacks.

The last conclusion draws on what we learned from the tactics companies used to isolate their pools of human capital from competitive pressures. Several informants asserted that these tactics are futile especially with the availability of thousands of job posting web pages. These tactics can be compared to burglar alarms. These tactics will not reduce the overall churn in the labor market. However they may discourage headhunting firms and aggressive competitors from targeting one firm and encourage them to focus on companies with easier access (Cappelli, 2000). Second, few if any of these tactics in isolation will reduce outside competitive pressures. Strategically chosen bundles of tactics may serve to reduce the pressure outside labor market competitors thus generating at least temporary advantage in the talent wars.

Appendix

This section describes the methods by which the 25 informants from 22 participating companies were identified, the set of questions used to initiate and facilitate discussion, and the list of participating companies.

Identifying and Contacting Participating Companies

Participating companies were identified through three primary sources: the Center for Advanced Human Resource Studies (CAHRS), presidents of three regional human resource associations, and referrals from other informants. CAHRS is an education and research institute of the department of Human Resource Studies in the School of Industrial and Labor Relations at Cornell University. CAHRS sponsors include 50 of largest U.S. and international companies. The Director of CAHRS sent each sponsor an e-mail with a brief outline of the project, an attached project proposal, and contact information for the study. Of the 50 companies, 13 expressed interest in participating in the study. Interviews were successfully completed with informants from 11 of these 13 companies.

Secondly, the author sent a copy of the research proposal to the presidents of four regional HR associations. These regions included Austin, Texas; San Francisco, California; Seattle/Bellevue, Washington; and Omaha, Nebraska. Contact was established with presidents in three of the four regions resulting in referrals to 12 companies; interviews were successfully completed with informants from six of these 12 companies. The purpose of contacting companies in Austin, San Francisco, and Seattle was to include companies in the highly competitive high-tech sector. Companies in Omaha were contacted due to the extremely competitive labor market and geographic isolation thought to increase rivalry for scarce human resources.

Prior to conducting interviews with the informants for this study, the author interviewed the Directors of Career Services in four colleges at Cornell University. The information gathered in these interviews was not directly included in this study; however, one of the Directors

provided the names and contact information for 3 informants that were included in this study.

Finally, two of the informants were identified from referrals provided by other participants in this study.

Interview Protocol

A quasi-structured interview protocol was used to gather information from the informants in the 22 companies. The same topics were discussed with each person in the same order, however the wording and examples differed depending on the circumstances surrounding the interview. At stage one the author outlined a summary of the war for talent. This was followed by a brief discussion of the difference between direct competition or rivalry and diffused competition (described in detail in the text of the paper). In stage two, the author asked the informants to think of an example where a competitor had initiated an action in the open labor market that improved their ability to attract employees resulting the informant's firm initiating a counter-action in response to the tactics of the competitor. Prompting questions were used to gather specific information about the competitor, employees affected, informant company's actions, and information about the competitor's tactics.

In stage three, similar information was gathered about talent raids. Informants were asked to describe an event where another firm had tried to recruit two or more of their company's employees. Prompting questions were used to gather specific information about the competitor, employees affected, informant company's actions, how the raid was identified, and success in stopping the raid.

After the first few interviews, the author noted that in addition to the competitive tactics, informants were describing proactive tactics to reduce the threat of poaching and talent raids. In the remaining interviews, informants were asked if their firms took any proactive steps to reduce the threat of talent raids. Examples from previous interviews were given to facilitate discussion.

Participating Companies

Advantage Receivable Solutions
AIRSDIRECTORY.com
Bristol-Myers Squibb Company
British-American Tobacco
Ciba Vision (a division of Novartis)
GE Aircraft Engines
GE Financial Assurance
Global Learning Resources
IBM
Interactive Business Systems
Microsoft Corporation
Mutual of Omaha
National Semiconductor
Pratt and Whitney
Priceline.com
Raytheon
Schoolpop.com
Sears, Roebuck, and Company
Shell Oil Company
Solomon, Smith, Barney
Source4Talent.com
Weyerhaeuser Company

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¹ Unlike all the other anecdotes described in this paper, the information from this interaction came from the raiding company rather than the target company. According to the informant from the raiding company, soon after the exchange of phone calls between CEOs the target company initiated a study on recruiting in the New Economy.

² The factors identified in this section were derived from discussions with informants rather than a detailed comparison of response incidents. The factors affecting type and magnitude of responses to talent raids were identified by detailed analysis of the circumstances surrounding response incidents.