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What are Best Practices Relating to Counter-Offers?

Abstract

[Excerpt] While counter-offers virtually disappeared in the great recession, they have regained popularity in recent years in an attempt to retain employees as the labor market tightens. While the use of counter-offers is widespread, many organizations are failing to use counter-offers effectively. Ineffective and poorly planned counter-offers result in negative consequences and poor results for all parties involved. Following the acceptance of a counter-offer, 55% of employees report greater unhappiness and decreased levels of commitment. Only 16% of employees who accept counter-offers believe their relationship with their employer improved post-offer. In fact, the majority of employees who accept counter-offers turnover within the following 6 to 24 months. Counter-Offers are a short-term fix when firms need a long-term solution.

Keywords

human resources, counter-offers, HR, talent management, talent toolbox, talent retention, high potentials, culture of openness, succession planning

Comments

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RESEARCH QUESTION

What are best practices relating to counter-offers? How should companies structure counter-offers to ensure greater effectiveness? How can companies integrate counter-offers into a talent management strategy?

BACKGROUND

While counter-offers virtually disappeared in the great recession, they have regained popularity in recent years in an attempt to retain employees as the labor market tightens.¹ While the use of counter-offers is widespread, many organizations are failing to use counter-offers effectively. Ineffective and poorly planned counter-offers result in negative consequences and poor results for all parties involved. Following the acceptance of a counter-offer, 55% of employees report greater unhappiness and decreased levels of commitment.² Only 16% of employees who accept counter-offers believe their relationship with their employer improved post-offer.³ In fact, the majority of employees who accept counter-offers turnover within the following 6 to 24 months. Counter-offers are a short-term fix when firms need a long-term solution.⁴

COUNTER OFFER BEST PRACTICES

Counter-Offer Policies

83% of companies do not have a formal system to create counter-offers. However, there are commonalities in how these offers are structured. Many include increases to base pay and large one-time bonuses, growth in job responsibility or promotions, and title changes being most common. Although employers pay promise the moon, follow-through is poor: 60% of employees do not receive a promised pay raise, 82% do not see a change in title, and 70% of employees remain working at the same level of responsibility post-offer. The problem with counter-offers is twofold:

- An increase in pay does not address the cause of the employee exit
- When a change to job structure or title is promised, employers fail to deliver

What Should Employers Do:

Understand value: Determine if this person's role is critical to your business strategy; Consider how difficult he or she would be to replace with someone of similar caliber; and recognize if the employee is a 'high-potential'?

Compare externally: Understand if the employee being paid at a competitive level. Next, ask the question: If not, why? Determine if and how the company could remedy this in a timely fashion. Finally, understand if you can provide an increase in base pay, a bonus, or other benefits such as equity compensation.⁵

Be inquisitive: If a manager approaches his/her superior with a job offer to become a senior manager at a competitor, determine how different – if at all – that job is from the employee's current role.

THE COUNTER-OFFER: ONE TOOL IN THE TALENT TOOLBOX

Most often, counter-offers are viewed as a tool to retain key talent such as high potentials, director or VP-level employees, employees who sit in critical roles. Many organizations hope to retain key talent craving greater development opportunities with a bigger paycheck. However, the most common reason for senior employee departures is not pay, but development. To retain top talent long-term companies must address the root cause of what is causing them to leave. To more effectively utilize a counter-offer organizations should:

- Create and maintain a culture of openness – understand the root causes of employee dissatisfaction
- Conduct robust succession planning and ensure key-talent has input in the process

ALTERNATIVE TOOLS IN THE TOOLBOX

Culture Management

Counter offers, in terms of salary increase, can create conflict within a team or department. Other employees might use a similar strategy – threatening departure – or approach the management team directly for increased responsibilities or pay and benefits.⁶ If management provides higher pay to an employee who receives an offer from a competitor, employees may perceive this as weakness and attempt to pressure management into their demands. Lack of internal equity due to an ad hoc counter-offer strategy can create a culture of mistrust. Employers can prevent this tense culture by building a company culture that promotes an individual's career growth and makes transparency a priority. Ultimately, HR and managers should understand an individual's career goals and provide them with the resources and work opportunities to perform.

Succession Planning

Strategic succession planning is a key piece of a successful talent management strategy. Succession planning most commonly takes place for director and above level roles and roles deemed to be key to executing business strategy. Many of the same employees who receive counter-offers sit in roles that are being succession planned for, or are labeled as potential successors to key roles. Moreover, two-thirds of external senior management hires fail within the first 18-months in a new role while internal moves are cheaper, fit with company culture, and are more effective.

Leaders in succession planning are being increasingly transparent in the succession planning process to support an atmosphere of trust while informing employees they are valued.⁷

Transparency and employee input in succession planning allows key talent to not only have a voice in their career trajectory but draw a line between filling skill gaps and the next step in their career. Since many top performers threaten departure due to a lack of perceived development opportunities, robust succession planning can lower employee turnover and the need for counter-offers. Moreover, if a counter-offer must be utilized to retain an employee a conversation is clearer: Is this employee unhappy with the plan currently set? Is the employee ready to be promoted now? Can we strategically shift talent within the confines of the succession plan to retain this employee?

CONCLUSION

Overall, counter-offers are just one piece of a robust and strategic talent management strategy. Organizations should be deliberate in how counter-offers are extended, understand the offer's impact on culture, and utilize counter-offers within the context on a succession planning strategy for high potentials and senior-level positions.

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Other Suggested Materials

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