



Fall 2017

## Current Thinking on Counteroffers: A Survey of Rewards and HR Professionals

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### Recommended Citation

Scott, Dow and McMullen, Thomas D.. Current Thinking on Counteroffers: A Survey of Rewards and HR Professionals. *WorldatWork Journal*, 26, 3: 6-18, 2017. Retrieved from Loyola eCommons, School of Business: Faculty Publications and Other Works,

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# Current Thinking on Counteroffers: A Survey of Rewards and HR Professionals



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**D**eveloping a counteroffer strategy and a related set of administrative guidelines is a timely and essential topic for several reasons. First, a confluence of economic, technological and social forces is reshaping work and employment relationships in a very tight labor market. Unemployment rates have dropped to less than 4.5%, a level that has not been seen since the 2008–2009 recession. Unemployment rates are even lower for science, technology, engineering and math (STEM) jobs and leadership positions, making it even more difficult to attract and retain employees in these jobs.

Second, today's workers are less tethered to their employers than they were even five years ago. Most professional employees have LinkedIn accounts that identify their expertise, experience, education and career history, thus significantly increasing their visibility to recruiters and potential employers. Additionally, many professionals increasingly work at home, a factor that likely reduces the quality of personal relationships that might anchor them with their current employers. This dynamic makes changing jobs easier than ever before.

Many employees literally do not have to leave home to take a new job in the same local area or anywhere in the world. Further, alternative forms of employment, as represented by the gig economy (and part-time, contract and consulting work), reinforce a transitory nature of employment where commitments are, by law, kept at arm's length.

Third, employers are under increased pressure to use lean employment models. This has often resulted in a shallower pool of internal replacement talent for key positions. With employers continuing to reduce head count and replace jobs with technology and other, more efficient processes, virtually every remaining employee is critical. Finding a replacement, either internally or externally, with sufficient knowledge to fill a position is challenging.

Finally, the very nature of counteroffers represents a risky strategy. Failure to exercise sound and disciplined judgment in making counteroffers can lead to turmoil for companies in an environment that has become increasingly competitive for talent. Reactionary and inconsistent decisions can have long-term negative effects on the perceived fairness within the organization and the integrity of its rewards program. Counteroffers can often become a widely known employee strategy to extract a better deal from their employers.

This article presents findings from a national survey of rewards and HR professionals who shared their counteroffer policies and practices, assessed their effectiveness and outlined how they minimized the need for counteroffers by more effectively retaining key talent. The findings are examined in light of a similar study conducted more than 10 years ago (Scott, McMullen, and Nolan, 2005).

## COUNTEROFFER STUDY

One hundred twenty rewards and HR professionals from primarily mid- to large-sized organizations completed a counteroffer practices survey administered by Korn Ferry Hay Group in April 2017. As shown in Table 1, respondents represented organizations of varying sizes with earnings ranging from less than \$250 million (35% of organizations) to more than \$1 billion (38%). Most respondents reported turnover rates either below or comparable to industry norms (36% and 47%, respectively). About half (56%) reported that their company performance was comparable with others in their industry, with 24% saying they performed above industry

**TABLE 1 Organization Size of Survey Participants**

Less than \$250 million	35%
\$250 million to \$500 million	13%
\$500 million to \$1 billion	14%
\$1 billion to \$2.5 billion	13%
\$2.5 billion to \$5 billion	9%
\$5 billion to \$10 billion	6%
\$10 billion to \$25 billion	4%
\$25 billion to \$100 billion	5%
More than \$100 billion	1%
<b>Total</b>	<b>100%</b>

Source: 2017 Counteroffer Survey

norms and 20% below these norms. Finally, most respondents agreed that employee retention was a concern and challenge for their organization. Respondents reported that they agreed or strongly agreed that employee retention of key talent was a major concern for senior management (72%). They also expected a substantial number of key employees to search for a better job during the next two years (54%), and reported that retaining managerial and professional employees who were high performers or who had critical or key skills was a significant challenge in their organization (48%). Only 21% and 26%, respectively, disagreed or strongly disagreed with these statements.

**TABLE 2** Frequency Counteroffers Are Made

	%
Never	4
Rarely (less than 5% of those who received offers)	54
Seldom (5% to 25% of those who received offers)	33
Often (25% to 50% of those who received offers)	5
Frequently (over 75% of those who received offers)	1
Don't know.	3
<b>Total</b>	<b>100</b>

Source: 2017 Counteroffer Survey

## COUNTEROFFER STRATEGIES AND PRACTICE FINDINGS

The findings indicate that counteroffers are offered rarely (54%) or seldom (33%) but virtually all employers extend counteroffers. (See Table 2.) However, regardless of the frequency, the management of counteroffers is primarily ad hoc and situational. Only 3% of respondents indicated they had a formal counteroffer policy. Eighty-four percent said they did not have a policy but decided each situation by its merits, and 13% said they had an informal policy that provided general guidance. The implication is that most organizations have no established formal counteroffer strategy, either in terms of identifying the types of situations that may warrant these offers or a process for determining the composition of such an offer. Consistent with this lack of policy or guidelines, only 3% of respondents indicated that managers were well-versed in the organization's counteroffer policy.

Still, the use of counteroffers may not be as ad hoc as the data suggest since the HR function in most employers is involved in the determination of counteroffers (60%), and many at least solicit human resources' input to management (24%). Only 6% of respondents said that human resources had no active role in the determination of counteroffers.

Counteroffers are not given uniformly to all occupations, jobs or employees. (See Table 3.) Executives, managers and professionals are the roles most likely to receive counteroffers, while sales, support staff and production workers are least likely to receive them. However, one should note that lower-level employees were more likely to receive counteroffers in 2017 than they were in 2005, when

**TABLE 3** Roles for Which Counteroffers Are Made

	Very Great/Great	Some Extent/ Little Extent	Not at All
Executives	50	42	8
Managers	32	62	6
Professional and Technical	30	65	5
Sales	19	61	20
Support Staff	3	67	30
Production	6	45	49

Source: 2017 Counteroffer Survey

**TABLE 4** Counteroffer Criteria

Only for employees in key or critical positions and who are outstanding performers	49
Only for employees in key or critical positions	20
Only for employees who are outstanding performers	9
We make counter-offers at the request of the employee's manager based on their discretion	16
Other guidelines	6
<b>Total</b>	<b>100</b>

Source: 2017 Counteroffer Survey

the original counteroffer study was conducted. Regardless of employee groupings, counteroffers are typically made to employees who are both top performers and in key or critical positions (49%), further reinforcing a rather selective utilization of this retention tool. (See Table 4.)

Admittedly, employees who contemplate a move to another organization or who have resigned may not be entirely honest about their reasons. However, since HR and rewards professionals often administer the employee's exit from the organization, they are likely in a strong position to know why the resignation is taking place. As shown in Table 5, promotions and increased job responsibilities, followed closely by career-development opportunities and base pay, were the reasons most often given as to why employees considered leaving or actually resigned. Incentives/total cash opportunities, management or leadership, and work culture/environment were also considered important reasons. Employee benefits programs were considered the least important reason.

Given that respondents thought promotions, increased job responsibilities and career development were the most important likely reasons an employee chose

**TABLE 5** Why Employees Consider Outside Job Offers

	Very Great/Great	Some Extent/Little Extent	Not at All
Base pay	72	27	1
Incentive/total cash opportunities	59	36	5
Benefits program	14	68	18
Promotions to increase job responsibilities	79	19	2
Career-development opportunities	73	23	4
Feelings of being fairly treated and respected	38	52	10
Management or leadership	53	44	3
Work culture or environment	45	47	8
Quality of family or home life	39	57	4
Mean	N/A	41	6
Standard Deviation	N/A	47	15

Source: 2017 Counteroffer Survey

to leave, the core element of a counteroffer — an increase in base salary for the same job — seems incongruent. (See Table 6.) The opportunity to work for a new manager or supervisor was offered infrequently as a reason for exiting the organization.

Most respondents rated their organization's counteroffer practices as either not effective or marginally effective (combined 73%). The remaining 27% rated their counteroffer practices as effective or very effective. These findings indicate that there is considerable room for improvement in counteroffer strategy, policy and practice.

In terms of employee retention, if the counteroffer was accepted, respondents reported that 23% of their employees seldom left the organization within the next three years, 30% may leave in the next three years, 20% are likely to leave in the next three years and 27% usually leave within the next three years. This suggests that counteroffers are not necessarily associated with employee intentions to remain with the company. Although managers may question the loyalty of employees who accept counteroffers, the findings indicate that the relationship with the employee usually is not damaged (59% said it usually did not change) and generally stays on course. Twelve percent of respondents believed the relationship worsened, and 16% believed that the relationship improved.

In summary, the findings indicate that:

- Most organizations provide counteroffers but typically do not have strategies, policies or documented processes to administer them.

**TABLE 6** Typical Elements of a Counteroffer

	Very Great/Great	Some Extent/Little Extent	Not at All
Increase in base salary while in the same job	72	25	3
Promotion to a higher job level with an increase in base salary/lump-sum bonus	17	74	19
Cash-based retention bonus	17	45	38
Restricted stock grant	6	22	72
Stock options	3	15	82
Special perks	7	26	67
Reclassification of current job to a higher pay level with a commensurate increase in job duties	16	51	33
Reclassification of current job to a higher pay level without a commensurate increase in job duties	6	53	41
Opportunity to work for a new manager or supervisor	2	53	45
Improved job title	13	56	31
Special project assignment	6	55	39
Training and development opportunities	18	47	35
Non-financial recognition	12	41	47
Mean	N/A	43	42
Standard Deviation	N/A	58	74

Source: 2017 Counteroffer Survey

- Offers are typically reserved for top performers, high potentials and those in key jobs.
- HR or rewards departments are typically involved in creating the counteroffer.
- Most organizations see their counteroffer practices as marginally effective but indicate employees are reasonably likely to accept a counteroffer and this does not jeopardize the ongoing employer-employee relationship.

## CREATING AN EFFECTIVE COUNTEROFFER STRATEGY AND PROCESS

The results from this research indicate that while virtually all organizations make counteroffers, few have developed a strategy or formal policy that is understood by management. Thus, it is not surprising that only 26% of organizations assess their counteroffer strategies, policies and practices as effective. Based on the findings from our research and our consulting experience, we suggest that developing

some principles and guidelines around this topic will lead to counteroffers being used more effectively, efficiently and judiciously. We suggest the following:

**Develop a strategy.** First and foremost, senior management needs to formulate a set of principles that outlines the conditions under which a counteroffer might be made. These principles should indicate which types of roles and employees are eligible to receive counteroffers. The level of transparency of counteroffers can have important ramifications among management and employees regarding perceptions of fairness and the inherent risk in accepting those offers. Finally, parameters should be provided for what can or will be offered to employees. These often range from improving current base salaries, providing stock options, retention bonuses, increased job accountabilities and related promotion increases or a new supervisory relationship.

Managers often only become aware of a competitor's offer when the employee announces that he/she is considering accepting the job offer or after the employee tenders his/her resignation. As such, an organization's response to the employee leaving must be made quickly (often within one to two days) if a counteroffer is going to be successful. A set of counteroffer principles and related administration guidelines will significantly reduce response times and help ensure that decisions are more consistent concerning the appropriateness of a counteroffer. Organizations that are more reactive increase their risk of losing valued employees due to a slow response time and poorly thought-through responses.

Several considerations should be taken into account in creating a counteroffer: employee performance; critical nature of the position held; and the ability to replace that individual. Ideally, this information is systematically collected and assessed routinely by the organization. Thus, this assessment should occur quickly and a determination made if the employee is: 1) a "must retain"; 2) a "would-like-to retain"; or 3) an employee who, by leaving, frees up a position to promote or hire a more qualified individual for the job. If the employee falls into the category of a "must retain" or "would-like-to retain," then additional information should be collected in order to formulate a strategy for retaining this person.

**Root-cause assessment.** The ability to determine why an employee has decided to leave the organization is a crucial step in formulating an effective counteroffer. It may initially be challenging to determine if the person is concerned about compensation, management, quality of work life, career opportunity or other considerations, as some of these issues are considered personal, perhaps politically incorrect, or even unwise to mention for fear of legal repercussions. Selecting the right person to talk with the employee about the decision to consider another job is important, because the employee may be leaving because of a supervisor or someone else in the management hierarchy.

Since compensation is often a reason the employee is considering other job opportunities, and employees may be unwilling to mention this reason, the pay package should be reviewed to determine if inequities exist. The most common



problems include internal pay increases that have not kept up with the external labor market or an expansion of the employee's job so the position is no longer paid appropriately relative to relevant internal or external comparisons. Of course, appropriate adjustments should be considered not only to address the problem for individual employees but also for other employees who may be in a similar situation. Even if the employee is found to be fairly paid, that worker may not understand the reasons for this determination or appreciate the total rewards package. As such, reviewing the pay package with the employee may add clarity and take that issue off the table.

If the employee is considering other job opportunities because of a work environment or quality-of-life issue, the situation needs to be explored in more detail because the importance of these issues can vary widely among employees. Understanding what concerns the employee, and why, may require serious and quick detective work.

Finally, even if the organization is committed to retaining the employee, management must determine whether the individual will be able to work productively if the counteroffer is extended and accepted. Concerns to be addressed often include:

- Has there been a lost confidence or trust in the employee?
- Will an increase in pay or the improvement in working conditions trigger feelings of ill will from peers?
- Will the counteroffer set a precedent for others in the organization and motivate other employees to attempt to renegotiate their pay packages or work situations?
- Will the pay increase create an internal inequity issue and compromise the integrity of the organizational pay structure?

**Crafting a counteroffer.** If it makes sense to extend a counteroffer, the information collected earlier will be helpful in constructing an offer that is appropriate for the situation and one the employee will accept. Management needs to decide if the employee considering other job opportunities is a key employee that it absolutely does not want to lose or an employee that the organization wants to retain for less urgent reasons. If the latter is the case, management can take a less aggressive approach, perhaps by helping the employee compare the job offer with what he/she currently has and discussing future career opportunities that may become available. If the employee is a "must retain," considerations involving job changes or enhancements to the pay package must be considered. Having a policy that sets forth the parameters with which a counteroffer will be constructed will speed the process and provide consistency in what is offered.

Although pay is often a prominent issue, determining the extent to which an employee's pay is internally and externally equitable is relatively easy. A more difficult situation occurs when, in order to retain an employee, that person must be paid more than another employee for a similar job at a similar performance level. Although exceptions can be made, how can those exceptions be equitably

explained to employees who learn about this special deal? This is another situation where a well-crafted policy comes into play.

Non-pay issues are often more difficult for management to resolve than those related to compensation. If the reason the employee wants to leave is incompatibility with a supervisor, reassigning the employee to another manager or changing the manager-employee relationship can be difficult. Does this erode the authority of the manager or indicate this manager has a performance problem? Other counteroffer-related changes that are obvious to other employees can create management challenges. These include demands for a promotion or a job with greater responsibility, a transfer to a work location closer to the employee's home, an ability to work from home and flexible work hours. Many of these solutions could run counter to current corporate policies and set precedent for other employees to demand similar accommodations. Therefore, a well-thought-out counteroffer policy is important to avoid these problems.

Once a counteroffer is made and accepted by the employee, management must deliver on promises and ensure that an employee's decision to stay has not created other unforeseen problems. This can be addressed by talking to the employee over the next few months to ensure the issues are being addressed and the employee does not regret the decision to stay.

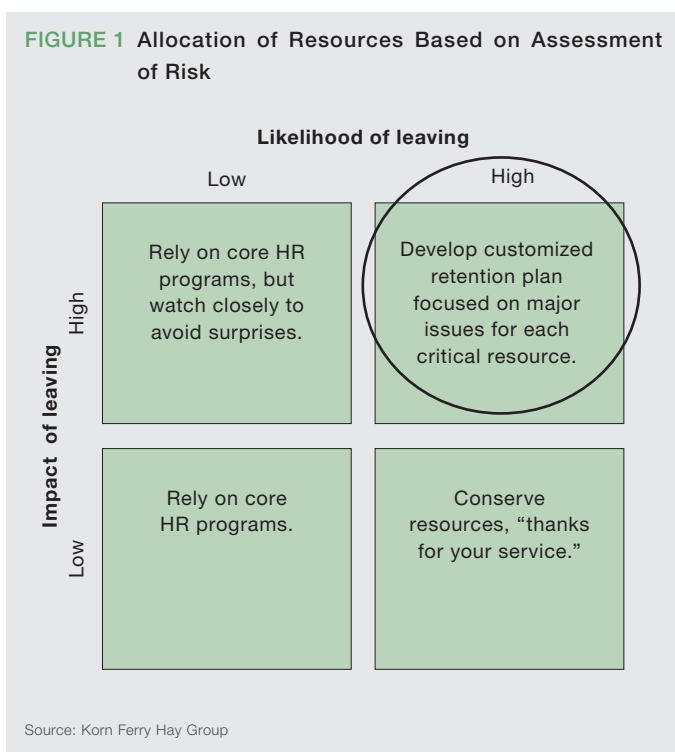
Management must also carefully consider how to communicate to colleagues about the employee who is made a counteroffer. Employees who receive counteroffers may be likely to share their new deal with others, even as they have probably talked about their search for a new job with co-workers. These co-workers will want to know why the employee decided to stay. How colleagues interpret management's decision may vary, and it may potentially affect their expectations of receiving equitable treatment and potentially a counteroffer themselves.

## **REDUCE THE NEED FOR COUNTEROFFERS**

Making counteroffers involves risk. Special or unique compensation deals can put pressure on the internal equity and perceived fairness of the compensation program. They can also potentially encourage other employees to renegotiate their own pay packages. One important way to avoid problems associated with making counteroffers is to reduce the likelihood that key or high-performing employees will consider job offers from other organizations. In our research, we asked respondents to identify which core programs they used to retain their key talent and then to evaluate the effectiveness of that program. (See Table 7 on page 16.) The most frequently used programs include: talking with key employees about career-development opportunities (96%); identifying key employees who are essential to the business (92%); monitoring satisfaction of key employees concerning their pay and work situation (89%); providing additional learning and development opportunities for key employees (89%); and developing employees who may replace key employees if they leave (87%).

Each one of these frequently used strategies was considered to be effective by most respondents. Although not as frequently used, provision of stock options or equity awards for key talent and succession-planning processes were also evaluated as effective. Interestingly, other compensation focus areas, including supplemental variable pay, retention bonuses and special perquisites and benefits for key talent were not used as frequently, and they were not evaluated to be as effective as other utilized strategies.

**FIGURE 1 Allocation of Resources Based on Assessment of Risk**



Respondents identified numerous methods for reducing the likelihood that key employees will leave. Recognizing that resources are limited and partitioning the level of effort expended to retain employees can enhance results. Figure 1 shows how priorities might be established based on impact and likelihood that an employee will leave the organization.

The organization's first step is to identify the degree of impact of an individual employee's departure. This is determined by the criticality of the position, but also may be determined by performance of employees who are being groomed for important positions within the organization. These are individuals whose departure would be considered to be a substantial loss, and the company would thus consider making a counteroffer if the employee was planning to leave the organization (Wells 2003).

Once criteria are known, the organization should consider the probability that these employees might seek opportunities from other organizations (i.e., the individual's flight risk). Determining the flight risk for each person is a difficult task that requires a degree of insight about the individual's personal situation, needs and preferences.

When the organization has identified the counteroffer criteria and potential flight risk of important employees, then it can decide how to take control of the counteroffer environment, as shown in Figure 1. Most organization resources should be directed to those individuals who have high impact and are most likely to leave,

**TABLE 7** Key Talent-Retention Strategies

	<b>Very Great/Great</b>	<b>Some Extent/ Little Extent</b>	<b>Not at All</b>
Dialogue w/ key employees about career development opportunities	96	68	32
Identify key employees who are essential to the business	92	72	28
Monitor satisfaction of key employees concerning their pay and work situation	89	60	40
Provide additional learning and development opportunities for key employees	89	57	43
Develop employees who may replace key employees who leave	87	58	42
Provide more aggressive base salary increases for key employees	84	58	42
Have a succession plan to replace employees critical to the organization's success	84	64	36
Provide meaningful and enriching job designs	80	60	40
Allow flexible hours or telecommuting	77	56	44
Provide meaningful pay communications, including total compensation statements	75	42	58
Provide mentors for key employees	65	49	51
Provide retention bonuses for key employees	65	51	49
Provide special perks and benefits for key employees	53	35	65
Provide key employees with stock options and equity awards	53	65	35
Provide supplemental variable pay	34	56	44

Source: 2017 Counteroffer Survey

and the least resources invested in those cases where there is minimal impact with employees who are unlikely to leave. Focusing resources on the employees with the greatest flight risk and impact is not only about compensation but about offering career and development opportunities and building strong communication links between human resources and senior management.

A key strategy is to maintain open and frequent communications with strategically important and top-performing employees to understand their issues and concerns. Managers should frequently engage key employees, and they should talk about their career preferences and professional development needs and expectations

within the organization. Identifying a mentor/coach for key employees can also establish a needed communication link for the organization.

Another consideration is to develop a talent supply pipeline and a succession plan for key positions. Identifying individuals who can replace critical employees will limit the need to provide panicked counteroffers. If critical positions have one or more viable candidates who could successfully fulfill the requirements of the position, then the organization has taken substantial control over its counteroffer environment. Further, a succession plan builds a talent pipeline of future organizational leaders. These individuals can then be groomed via training and development, opportunities to participate in organizational projects and exposure to the organization's strategic decision-making process

Providing robust career-development coaching and advancement opportunities to key talent is a third approach for controlling the counteroffer environment. It is easy for management to trap critical or high-performance employees identified as important in their current job by excluding them from internal job opportunities. Outlining a plan of advancement and opportunity for these individuals can often fulfill the needs that drive individuals to seek other employment. Partnering with an employee and showing an interest in his/her career development often goes a long way in creating organizational loyalty, something that has become increasingly harder to obtain for organizations.

A fourth strategy is ensuring that rewards for this group are competitive in the marketplace and reflect the value the employee has within the organization. In fact, if the employee is in a critical or key position, the company may justify paying that position above what is paid by competitors. Pay dissatisfaction is not based only on external comparisons but is usually more the result of pay comparisons made within the organization. A competitive compensation program that is perceived as internally equitable is one of the most important lines of defense in retaining talent.

Organizations that require a more aggressive approach to control their counteroffer environment might also consider offering retention bonuses for critical or key talent. These approaches offer a long-term solution with options and restricted shares vesting being awarded over multiple years, which tie the individual to the organization for a longer period of time.

## **CONCLUSION**

Knowing when and how to make counteroffers is difficult and can often lead to poor decisions, especially in a time-pressure situation. A clear counteroffer strategy and playbook are necessary for making decisions and developing a counteroffer that will be effective in a given situation as well as be sustainable for the organization.

If counteroffers are the "surgery" that organizations use to fix an immediate retention issue, effective talent management program design is the "wellness" program

for avoiding counteroffers. Ongoing investment of time, energy and resourcing in aligned key talent development, career planning, succession management and rewards management will reduce the likelihood that key or high-performing employees will consider job offers from other organizations. ■

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