

OFFER AND COUNTEROFFER: TO PLAY THE GAME OR NOT?

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Alex Chapman, Management Department Chair at Alexander State University, had learned that one of his top professors and best researchers was considering an attractive job offer from another university. Concerned that he could lose one of his most accomplished and productive researchers, Chapman was very interested in keeping him on the Department faculty and immediately thought of getting the University to make a counteroffer. Chapman soon learned that there was resistance and controversy among University officials about making counteroffers, a situation exacerbated by the current austere budget environment. The case provides an opportunity for students to learn about the management and human resource issues involved in offers and counteroffers in employment situations, focusing on the issues of pay administration, compensation fairness, pay equity, motivation, and justice theories.

INTRODUCTION

Larry, this is Alex. I got some disturbing news today about David Jenkins! Apparently he's got an offer from Paragon State University in Arizona to join their faculty. I understand that it is a named professorship with a salary about \$40,000 more than he's making here. Sounds like an incredible offer, I know, but David has put together a pretty strong publication record. He also has been well recognized for his work in the Academy of Management, and he's also a darn good teacher. Anyway, I'm to meet with him this afternoon to talk about this and will fill you in after our meeting. Just wanted to give you a heads up.

You come back from a day off and are greeted with this, thought Larry Farrell, Associate Dean of the College of Business at Alexander State University, after hearing this voice mail. The call was from Alex Chapman, Chairman of the Department of Management, where David Jenkins was a well-respected professor.

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Jenkins was a highly valued faculty member in the College and his loss would be significant, given his level of professional accomplishment as well as his knowledge of the academic programs in the College. Since the College leadership had been focused for years on strengthening its research faculty, this could be trouble, Farrell reflected.

As he began to look at the staffing proposal for next year that was due by the end of the week, he wondered if Jenkins would find the offer that good once all the details are known. He certainly hoped not.

BACKGROUND

Alexander State University was a large comprehensive state university located in the Southeast. The College of Business at Alexander State offered a broad set of degree programs with academic offerings at the bachelor, master, and doctoral levels. The School had 85 full-time faculty members who were organized into seven academic departments, under Dean Phil Conrad. The Department of Management was led by Alex Chapman and had 14 full-time faculty positions. A partial organization chart is shown in Exhibit 1.

For many years, the level of state funding as a percentage of the University budget had been decreasing. Like many other state universities across the country, Alexander State had faced challenging budget crises. Within the College of Business, maintaining the existing level of academic programs had proved difficult and required substantial tuition increases which had not gone unnoticed by students, parents, and the state legislature. Public pressure to limit rapidly rising tuition had become very strong.

Associate Dean Farrell had been extensively involved with the College budget over this period and was in the process of writing a draft of the College budget proposal for the coming year to present to the Dean of the College. A serious problem in the College, and the University generally, was the absence of any general pay increases for faculty for the last three years. The College had hired several new faculty members over that period and paid market salaries which upset current faculty members who felt they were getting further and further behind in compensation. The absence of any pay improvements had been not only a source of discontent and flagging morale, but it was also an incentive for some faculty members to seek employment elsewhere.

THE OFFER

Later that afternoon, Chapman met with David Jenkins about his offer to join the faculty at Paragon State. Although the topic of their session produced some anxiety, their discussion was cordial as Chapman and Jenkins got along well and had developed a mutual respect over the eight years that they had worked together in the College. At the meeting, Jenkins showed him the email that he received from Francine Markus, the Dean of the Business School at Paragon that outlined key terms and conditions of the offer:

Glad to talk with you yesterday. I am pleased you are interested in our University Professor of Management position. To summarize our proposal, the major conditions are:

- *Appointment at the rank of Professor (with tenure)*
- *Holder of the Frederick Jewett Professor of Management position*
- *Salary of \$150,000 for the nine-month academic year*
- *Teaching load of four (three-credit) courses per academic year (unless extenuating circumstances)*
- *Summer teaching available for one course, pay would be nine percent of your base salary*
- *A \$6,000 annual operating budget for travel and professional expenses*
- *20-hours per week of graduate assistant support for your classes and research*
- *Up to \$5,000 reimbursable moving expenses*

Please give this opportunity serious consideration. You'd be a great addition to our faculty. Let me know if you have any questions and I will get back to you ASAP. As I mentioned, I'll be out of the office on Monday and Tuesday but will be generally in during the rest of the week. If we could have a conversation sometime next week, that would be great.

Best wishes,

Francine Markus, Dean

Jenkins seemed nervous and awkward in the meeting. He was anxious since he knew that the decision he would soon make might mean leaving Alexander State. And, if he did not leave, he was not sure how this situation would affect his future relationships at Alexander with school administrators and his faculty colleagues in

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his department. During the discussion, he expressed some hope that Alexander State would try to keep him on their faculty:

Jenkins:

Alex, as you know I don't dislike this place but the offer from Paragon is something that I cannot ignore, and I need to make a decision in about a week. This offer is for a named professorship, which does carry some prestige. And I consider Paragon to be a pretty good school, and getting better, although some might think we have an edge in reputation.

I have had a pretty good experience here at Alexander State over the last eight years, but I think you can understand that the school just hasn't come through for me financially. As a full professor, I am not making much, if any, more than the two new assistant professors we've hired in the last two years – you know that faculty salaries at Alexander are no secret in our "open records" state.

Now, I am not saying that the new hires aren't good people with potential in research, but they don't now have any significant publications. And I have given a lot to this job, and my professional record is better than most of the faculty in the department. I know that it's not completely in your hands, but I might be interested in staying if you can do something for me. As far as the work goes, I like the environment here and get along well with both the undergraduate and graduate students, and enjoy my colleagues. I like this place, as does my wife – but not enough to sacrifice so much financially for me and my family. Though there's a lot to consider, the money is pretty important.

Chapman listened attentively to Jenkins and assured him that he was well aware of Jenkins' value and acknowledged that he had contributed a lot to the Department. He told him that he had a bright future if he stayed at Alexander State. Understanding the urgency of the deadline for Jenkins' decision and not wanting to lose one of its best faculty members, Chapman told him that he would raise the issue with the Dean's Office right away.

Chapman:

Let me talk with Larry Farrell, the Associate Dean for Faculty and see if the administration is open to giving us some help. David, I know where you are coming from on this, but you need to consider that you have a bright

future here. You are well established and respected by your colleagues and students.

You have good opportunities for summer teaching here and are picking up some additional compensation from your project work on workforce development with the Business Research Bureau. If I remember correctly, you have supplemented your academic-year salary by about \$20,000 over the last several years – and I expect that can continue. Also, I doubt that Paragon's benefit program is any better than ours, if as good, and that's a factor you ought to consider. Most schools don't pay 10% of your earnings to retirement. And surely you know that housing and living costs will be higher in the community around Paragon State. On the lifestyle side, you and your family like it here with all the urban amenities, and Paragon is in a pretty small town.

Jenkins:

I know that I need to look at the total situation. And, small-town life would be different for us. I've looked at the tax situation and their income tax and our sales tax pretty much offset each other. And living expenses there are a little higher than here, maybe 10%. And I think they pay 6% of salary toward retirement. But, a salary that's \$40,000 more than I am making here is a pretty big deal! With no good raises on the horizon here, I really need some reasons to stay.

In their offer, they are giving me a four-course per academic year teaching load, where I have five courses here. And they will give me \$6,000 annually for travel and professional expenses. That's about twice what I've had here.

Chapman:

Yes, I can see that there are some advantages, but Paragon doesn't have the graduate programs we do, and you would be teaching more undergraduates – and I know that you really enjoy the graduate classes. And we give you good graduate assistant support here.

Look, David, I know where you're coming from. Let me see what we might be able to do, and I will be back with you as soon as I can. But please keep an open mind.

THE DISCUSSION WITH THE ASSOCIATE DEAN

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Following his session with Jenkins, Chapman came to meet with Farrell and summarized the details of Jenkins' offer from Paragon State. Farrell listened intently. Chapman was obviously anxious and worried about the possibility of Jenkins' leaving the school.

Chapman:

Larry, we are going to lose David unless we can put together a counter proposal pretty quickly. What I told you earlier is about right as far as the money is concerned, but you can see that he also has some perks with this professorship that we need to address. What is your take on this? Do you think that Dean Conrad will support a counter offer?

Farrell:

Well, I don't know how this will play with the Dean. As you described it, Jenkins' offer is pretty strong, and we will have a steep hill to climb to deal with it – if we decide to do so. These are tough budget times and next year is not likely to be better. I think the Dean might be willing to go to bat on this, but we will need to get all the details. If we decide to pursue it, the Dean would need to get the Provost's approval on it – especially since his office would have to come up with funding for this since we just don't have it in the College.

Chapman:

But look, Larry, if Jenkins were to leave we would have to find the money to replace him and fund the additional recruitment costs, as well. Someone with his record would probably cost us as much as his offer. Even if we hired an entry-level assistant professor, we would probably pay at least as much as he's making now. On average, it costs us about \$9,000 or more in recruiting and moving costs to fill the position, not to mention everyone's time and effort.

Farrell:

Yep, you're probably right. But, right or wrong, getting counteroffers through the system is not that easy. Some of the deans on campus are not very supportive of this. They see it as a game and tend to resent it. When this came up last year in another college, I heard that dean say that he tried to treat his faculty members right and would do what he could when raise money was available, but he "wasn't going to renegotiate everyone's salary every year" and encourage his faculty to go out and seek offers to pump up

their pay here. I do know that the Provost has approved some counteroffers in the past, so I think it is a possibility.

So, we need to make a good case if we want to get his support. Can you get me a written statement that documents David's offer at Paragon and provides the details along with your recommendation on a counteroffer? Be sure to detail why you think it makes sense for us to retain him and what you think it will take and why. By the way, I do remember seeing his resume during the last faculty evaluations. He has a strong publication record which would be good to have as we prepare for our upcoming accreditation review.

Also, we need to consider the impact of this on other faculty members. If we make Jenkins a counteroffer, how do you think the other faculty in your department will react? Will it become a big morale problem? You know this won't be a secret for long.

I know that we need to move quickly. Can you study this and have your proposal to me by noon tomorrow?

Chapman:

Yes, I know that there's a lot to think about. I'll begin to work on this now and will get a memo to you tomorrow. Thanks for your thoughts and help. I hope we can make this work.

Farrell:

Alex, you've got to make sure that you lay out for Jenkins, all that he's got going here. Our cost of living is pretty low and our benefit and retirement system is better than a lot of schools. We've got to remind him of these and see that they don't get lost amidst all the conversation on salary.

DECISION TIME

Returning to his office, Chapman began to consider how to approach the task. He thought he wanted to propose a counteroffer, though Farrell's comments gave him cause for pause. In dealing with Jenkins, maybe he needed to do a stronger selling job, pushing the value to Jenkins of staying with all the associated benefits, as Jenkins was certainly comfortable here and appreciated the many community amenities. By comparison, he and his family would face an uncertain situation if they moved to Paragon State to establish a new life.

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If he lobbied hard on getting a big raise for Jenkins and was successful, Chapman thought he could keep him, at least for now. But what about the future? Would the news of Jenkins' raise encourage other faculty members to seek other job offers to get pay increases? Might Jenkins, also, try to do the same thing in the future? Could giving Jenkins a counteroffer be the precedent to creating a human resource monster?

Chapman looked over the faculty salaries in the Department (see Exhibit 2). The Management faculty was a diverse group with different specializations. It included instructors who typically had master's degrees and the assistant, associate, and full professors who held doctoral degrees and carried the research program of the Department. He winced as he recognized the salary inconsistencies in the department that had resulted from pay compression, and even pay inversion. Due to the short supply of new faculty that fit the Department's needs, recently hired new assistant professors had higher salaries than most faculty members with higher ranks (associates and full professors) and many years of service. But, he realized, that was not a problem for today. Looking at the salaries of the four other Professors in the Department, it was obvious that a big salary increase for Jenkins would further upset the internal salary structure for full professors in the department. See Exhibit 2

Realistically, he thought, Jenkins would be gone unless they could get a competitive counteroffer together. Then, the department would have lost one of its most productive researchers and best teachers. And there was no way he could hire a replacement with similar qualifications and accomplishments for Jenkins' present salary. Indeed, that amount would hardly cover the salary costs of a new assistant professor with a fresh Ph.D. But, if an effort was made to keep him, what should the salary recommendation be and what other factors could be a part of this proposal?

Chapman spent a little time on the Internet, checking out comparative living costs in the communities of Alexander State and Paragon University and looked at available information on benefit and retirement plans. He began to make some notes on what he thought were the factors affecting Jenkins' situation. He put the financial and non-financial information together in two columns on his note pad, one for "Stay" and one for "Leave." Well, at least I have some of this down on paper, he assured himself, a half-hour later.

He was leaning toward recommending a counteroffer in the hopes of retaining Jenkins, although he knew that could create other problems. Keeping Jenkins on

the faculty by advancing his pay and/or other conditions of employment would cause some commotion and controversy in the department. But it was now after 7:00 p.m., and Chapman was tired and ready to go home. He needed to have his proposal and rationale to the Dean's Office by tomorrow at noon. As he walked toward the parking lot, he thought about how he could pull this together after dinner.

EXHIBIT 1

Partial Organization Chart

Alexander State University

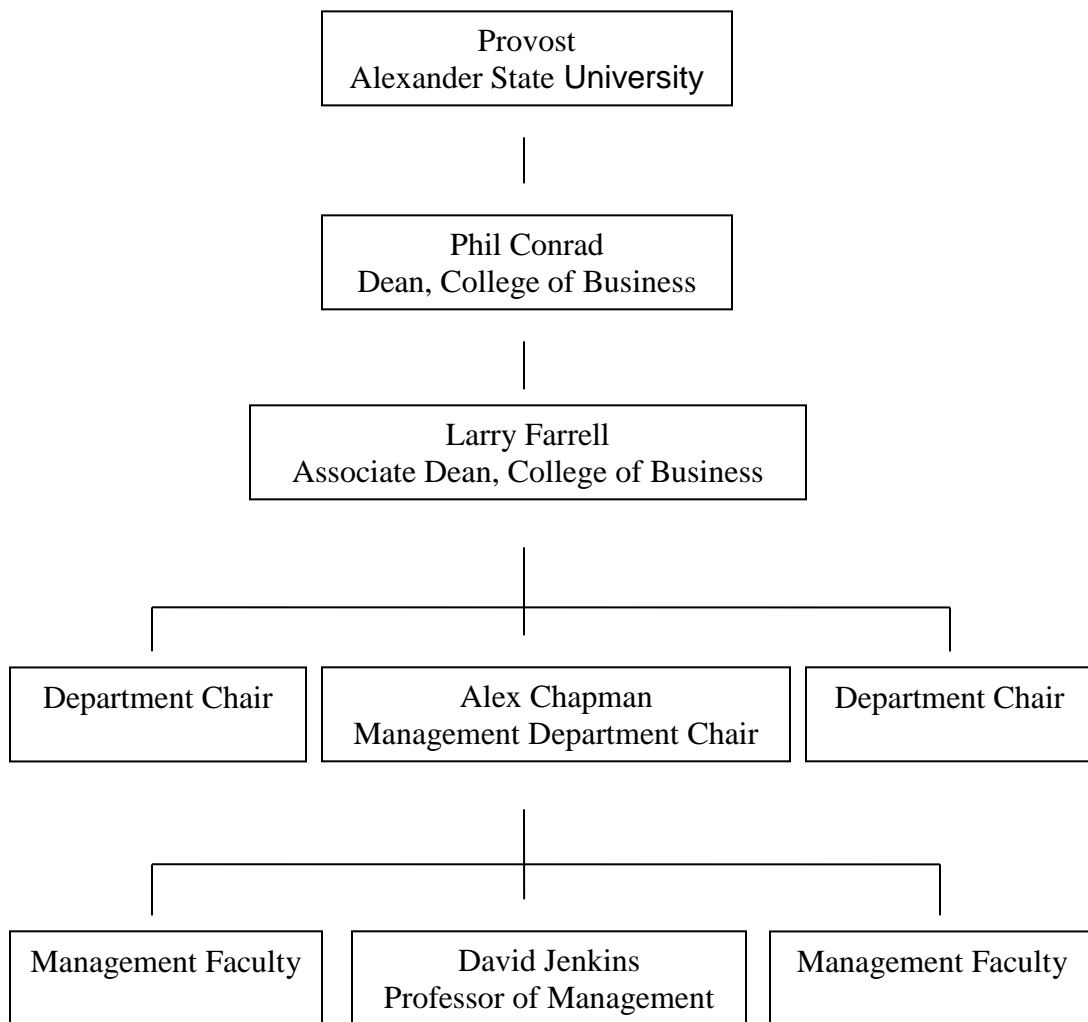


EXHIBIT 2

Department of Management Faculty Salaries

Name	Rank	Salary
Jerry Carter	Professor	123,455
David Jenkins	Professor	109,850
Karl Henson	Professor	98,220
Joon Hyung	Professor	123,869
John Williams	Professor	102,034
Monica Chu	Associate Professor	106,114
Jay Frederick	Associate Professor	89,744
Paul Hertz	Associate Professor	91,350
Fred Azbill	Associate Professor	78,566
Christine Ranta	Associate Professor	89,975
Radhika Bosch	Assistant Professor	107,700
Brian Webber	Assistant Professor	109,500
Laura Deitz	Instructor	51,825
Andrew Fargason	Instructor	48,741