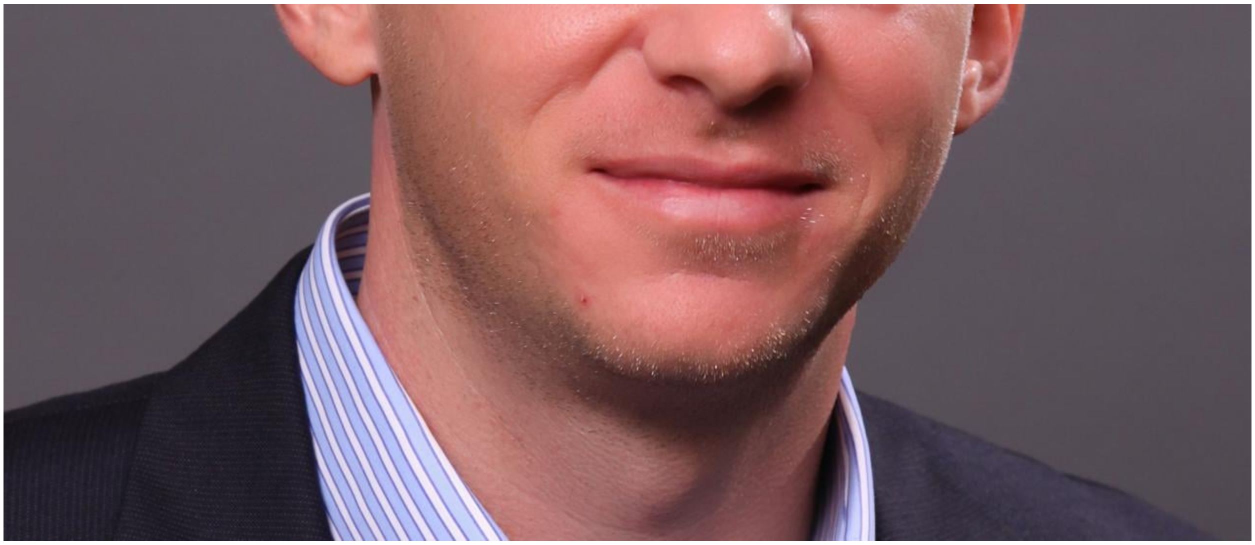
When deadlines don't work: The perils of exploding job offer



By Mrinalini Reddy

Employers could be forgiven for wanting their favorite candidates to accept a job offer NOW. But new research shows that putting a time limit on a job offer can have far-reaching negative repercussions.

It’s an employer’s market in many parts of the world, particularly in advanced economies still recovering from the crisis, where unemployment rates hover painfully around nine percent in the United States and the European Union. Consequently, applications flood job openings and employers are at certain liberty to negotiate terms favourable to the company. One common imposition is when firms set tight deadlines when extending job offers to their choice candidates.

But such “exploding” offers can fall prey to a reciprocation curse stemming from negative perceptions toward these deadline-charged job offers. That’s according to new research by INSEAD professors of decision sciences Neil Bearden and Ilia Tsetlin and INSEAD Ph.D candidate Nelson Lau.

Bearden and Tsetlin found that job offers with short deadlines – a sort of “condition” set before a working relationship is established - engender negative sentiments that extend beyond the negotiation stage. The employer may be able to better manage his recruitment costs, but more often than not, employees who accept an “exploding” job offer tend to systematically behave differently from those hired with extended offers, with a risk of them showing less commitment to the job and to the firm. More concerning, the professors note, was that subjects were able to anticipate the possible negative reactions yet they ignored this when deciding between exploding and extended job offers.

“Firms should not be myopic and focus only on whether they will successfully hire the applicant or not,” said Bearden to INSEAD Knowledge. Instead, they should carefully consider whether hiring the applicant will result in a successful partnership. “If the relationship does not end well because it did not start well, then the firm will have to start all over – and that can be very costly.” In short, they should have a long-term view, he says.

Despite the apparent benefits of exploding offers— it offers time to hire other candidates, early resolution of uncertainty, higher probability of acceptance—an employer must keep this reciprocation curse in mind and the harmful aftereffects on a hired employee. Could he or she become more or less committed to the firm, or work more or less hard, or be more or less helpful to colleagues?

Are exploding offers effective?

The professors’ research involved behavioral studies of deadline games. Participants played either the employer or job candidate in a hiring situation where the employer had the option of extending either an exploding (short) or an extended job offer. Participants in one game (played by 102 INSEAD MBA students) were told that accepting an exploding job offer and an extended offer would equally reward both the employer and the candidate with a cash amount (80 Euros), assuming a 50 percent probability of the candidate receiving a second better offer. Rejecting the exploding offer brought no cash to either and a substantially higher cash payout to the candidate alone (200 Euros) if the second offer materialised and was accepted. Conditional on accepting either the exploding or extended job offers, the candidate would need to either reward or punish the firm, by adding or subtracting 40 Euros to the firm’s payoff (80 Euros). This decision would not alter the amount the candidate received.

Game results showed that exploding offers were punished 55 percent of the time—candidates decreased the amount of cash the firm received—compared with extended offers that were punished only 10 percent of the time. In other words, employers with the extended job offers were rewarded with the 40 Euros payoff for 90 percent of the time. An identical second study employing a more general test population shared similar outcomes: exploding offers were punished at 39 percent compared with only 6 percent of extended offers.

"That exploding offers were punished at a rate of five to six times that of extended offers is quite significant," says Bearden. Furthermore, their observation of MBA students being substantially more punitive towards exploding offers than the general population suggests that there can't be a one-size-fits-all approach to making an offer, he adds. "They should try to understand how the recipients of their deadlines psychologically respond to them. With MBA students, for instance, the negative reaction is quite strong."

More curiously, the professors noted, is the low acceptance or capture rates using exploding offers—only 32 percent of the MBA cohort accepted. An exploding offer was no more likely to result in successfully hiring the candidates compared with giving an extended offer. However, they were much more likely to be punished, raising the question of their effectiveness particularly in the face of a very substantial downside to their actions.

Projection bias

Even when employers were reprimanded for exploding offers, the study found a high percentage of them extending issuing exploding offers—39 percent in the first scenario and 55 percent in the second. To dig deeper into this anomaly, participants were queried on their perceptions of how the population might behave—by providing estimates—when faced with the same scenarios, to assess any possible motivations behind the participants' choices. The results showed a strong tendency for people who themselves would accept exploding offers to issue exploding offers, whereas the people who would reject exploding offers did not tend to give them. "What seems to be happening is that the people who would accept them projected their own preferences onto the population when making their deadline decisions," says Bearden. "They thought that since they would accept an exploding offer that others would do so too. In reality, though, the offers were rejected, and at a high rate, and also substantially punished."

Employers therefore will do better not to project their preferences when setting deadlines. "Just because the deadline setter feels that the deadline is fair does not mean that the receiver will feel the same way," says Bearden. One solution, he offers, is to ask others – ideally people who are similar to the candidate – whether they think a given deadline would be fair, thereby leveraging on the wisdom of crowds and not relying on one's own attitudes about what is reasonable. Another solution would be to try to avoid issuing short deadlines whenever possible. "Firms should see the job offer as one part of relationship-building process with the candidate, and should try to have a long-term view," explains Bearden. "They should try to make sure that the candidate feels comfortable with the deadline, and should communicate the rationale behind their deadline to the candidate." Perhaps more poignantly, "in trying to articulate the rationale, the firm might realise, for example, that it sounds selfish and better appreciate how the candidate might respond to it."

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