The Persistence of

Lean and mean doesn't apply to executive perquisites, but they are changing—if quietly and slowly.

By Matthew Budman

What should be first to go when a company begins cost-cutting? The obvious items, many might say, are executive perquisites, those seemingly extraneous benefits intended to bestow status by separating the captain from his troops: company car, company-paid spouse travel, reserved parking, company-paid legal counseling and country-club memberships, executive vacation plans.

"It's harder to justify a high level of perks for senior management when you're cutting jobs" and costs, says David deWilde, managing director of Chartwell Partners International Inc. in San Francisco. "It's not just a matter of the shareholders being unhappy with a high level of perks—it's other employees who are bearing the brunt of downsizing."

But surprisingly enough, surveys show, perks have continued pretty much unabated, surviving not only the recession of the last few years, more restrictive tax laws, and the tidal wave of company restructuring, but also current populist sentiment and anti-hierarchy trends. "There really hasn't been an across-the-board scaling back," says *1992/93 Executive Perquisites Report* Survey Manager Marc McBrearty of Wyatt Data Services in Rochelle Park, N.J.

Executive recruiters offer an additional reason for the persistence of perks in corporate America. "It's always difficult to attract good people," says Norman C. Roberts, president of Los Angeles-based Norman Roberts & Associates Inc., "and in a down economy, it's even more difficult to get people to make a job change."

Marvin Laba, president of Los Angeles-based Marvin Laba & Associates, agrees: "Companies requiring new executives understand that good people are more important when the economy is down than when it's going well."

Though a small element of the broad executive-compensation field, perquisites always have captured a disproportionate amount of attention as the publicly visible trappings of life on the 30th floor. Two-thirds of companies provide executives with personal or leased automobiles (the more prestigious the executive, the more expensive the car); more than half provide supplemental life insurance; half set aside reserved parking spaces (which one executive recruiter dubs the "most obnoxious" of status-related perks); and half pay for executives' physical examinations, according to Wyatt's *Executive Perquisites Report* and the *1992 Hay/Huggins Benefits Report.*

As with the recession of 1981-82, the economic downturn of 1990-92 appears to have affected perks only in that talk about them is now in hushed tones. "It's a field that is more or less taboo right now," McBrearty says. "While a lot of companies are not cutting back on perks, they're not broadcasting about them either."

Creeping Change

Over the past decade, many more executive perquisites have come and stayed than have come and gone. Technological advances have put cellular telephones in executives' cars, complex new tax laws have spawned personal financial counseling, and merger mania has given rise to employment contracts and severance packages for these executives, Roberts says.

But a few of companies' more visible "status" perks have all but vanished: "Apartments and suites are very rare now," says Dale Winston, president of New York's Battalia Winston International. "And most companies have gotten rid of their planes; they've found it cheaper to fly their executives first class. And even the perk of first-class travel—I can't tell you *how many* companies have eliminated first-class travel."

Indeed, studies by the consulting company Runzheimer International of Rochester, Wisc., show companies increasingly limiting first-class travel over the past decade; 79 percent of corporate travelers now are "required to accept the lowest convenient airfare," and more than half must fly coach class on domestic flights. But those numbers have changed little in the past several years; the real belt-tightening came between 1986 and 1988.

Company-car programs have seen some fluctuation as well: Runzheimer shows that "employee-provided" pro-

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Perks

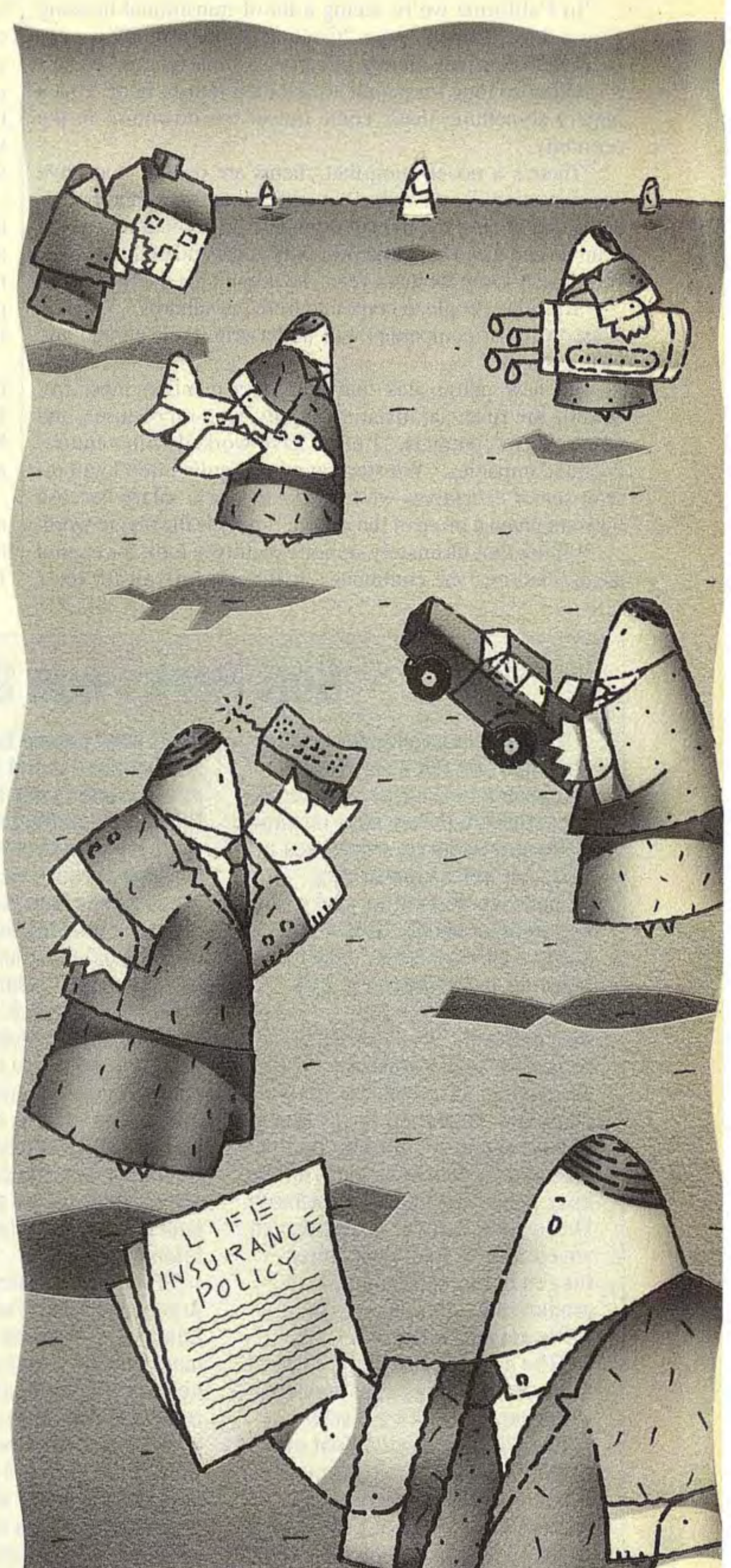
grams have tripled since 1985, while strictly company-owned car programs have decreased steadily in number. Twice as many companies lengthened their vehicle-replacement cycles in 1991 as in 1989.

But overall, change has been minimal. For every General Motors Corp. or Tenneco Inc. shutting down its executive dining room, there's a Sony Corp. *expanding* its dining facilities.

While one can discern a gradual shift from perks conferring status to those offering security—from limousines and luncheon clubs to long-term disability insurance and expanded severance pay—the change is happening excruciatingly slowly. Sometimes it's difficult to tell if anything is changing at all: Some perks that even companies themselves judge to be of little value, like VIP-lounge and luncheon-club memberships, remain relatively common.

In fact, survey statistics make one question whether some observers are correct in insisting that companies actually are cutting back. Winston says, "There is no perk for spouse travel anymore, because it's not a tax-deductible item." McBrearty agrees: "It's easy to cut spouse travel, because it saves money and doesn't cost the company anything." Yet McBrearty's own *Executive Perquisites Report* shows paid spouse travel has *risen*, significantly, in the past few years: More than 32 percent of surveyed companies cover their CEOs' spouses' travel expenses. Runzheimer statistics show only 23 percent of companies banning spouse travel in all cases.

On another example, McBrearty says, "Chauffeurs are practically nonexistent," and Winston concurs: "A driver would be reserved only for the president—*if* it would make it more efficient for him to have a chauffeur; it is a rare instance where it becomes a practical solution." Indeed, McBrearty's report shows only 22 percent of companies providing CEOs with full- or part-time chauffeurs (though that's hardly "practically nonexistent") in 1992. But two years before that the number was only 14.6 percent—meaning the figure has *climbed* some 50 percent.



Ken Bowser

"Equity Is the Magic Word"

To replace those few perks that *have* slipped in frequency (namely, luncheon clubs and sports and theater tickets), many new forms of compensation and perquisites have cropped up; different recruiters are seeing different perks:

"In California we're seeing a lot of transitional-housing allowances," Roberts says. "Companies are providing newly hired executives money to carry two mortgages because it's taking so long for people to sell their houses here. That's largely something that's come out of the downturn in the economy."

"There's a novel thing that clients are calling 'incentive compensation'," says Laba. "In addition to salary and bonus, at the end of the year, money is put into an account for the executive, and it can be withdrawn only at the end of three years. If he doesn't stay for three years, he doesn't get the money."

"To entice people to commute from the suburbs," Winston says, "a lot of companies will underwrite their garage and gas expenses."

The new perquisites that recruiters mention most frequently are financial in nature: equity, sign-on bonuses, and employment contracts. "I often have worked with venture-capital companies," Winston says, "and quite often I will recruit senior executives who will take cuts in salary because they are given a piece of the action. Equity is the magic word.

"I think that ultimately senior executives look for capital accumulation," she continues. "It is very difficult for most people to create capital from ordinary income, and therefore things such as stock options, 401(K) plans, pension and profit-sharing programs, and deferred-compensation programs are ultimately what people look for."

Stock options have become another popular way to lure top executives. "I can think of one search we worked on recently," deWilde says, "when we recruited somebody who came from a company that had a very high level of perks. It became clear that there was no way the company that hired him could come close to that level of perks, even though it was a more senior position. He ended up with stock options, which made the loss of the perks bearable."

It appears probable that the trend toward security and away from extravagance and ostentation will continue, even at its current snail's pace. "There's a certain amount of business lifestyle that's changed," says Joe Sapora, senior vice president of Hay Group in Jersey City, N.J. "We're not talking about gigantic, sweeping changes, but it's measurable."

To that effect, most believe statistics will soon reflect significant reductions in status-related perks. "I sense a change; I'm sure it's there," says Vice President Stephen Bryson of New York-based Handy HRM Corp. "Perquisites run against the grain. They don't *feel* right anymore."

But one shouldn't expect benefits like reserved parking spaces to disappear anytime soon. "Go to any corporate headquarters," McBrearty says, "and just *try* to park in front." ■

Soft Perks and Summer Hours

New populist-style, delayering attitudes may not have caused companies to slash perquisites for executives, but they *have* inspired some new perks for employees at large, as well as increasing recognition that status perks can create resentment. "Perks are partly a cultural issue," says recruiter Dale Winston of New York's Battalia Winston International. "As culture has become less hierarchical, perquisites have become more equitable. That's not to say that the president doesn't get his country club and his luncheon club, but he uses those very much for business. Those perks are not to distinguish your status in the organization—they're to increase your productivity. It's a change in how we're doing business."

"The old rank-has-its-privileges attitude doesn't go over very well with younger workers," says William B. Arnold, president of Denver-based William B. Arnold Associates Inc. and executive-outplacement company Darmody & Associates Inc. "Senior executives don't want people to think they're getting any special treatment. A lot of companies have taken away things like parking spaces to show there's no preferential treatment, that top executives are part of the group rather than standing alone."

Among growing nonexecutive perks, most prevalent has been what Winston "affectionately" calls "the soft perk." "One is casual Fridays, where lots of companies—we're talking large, mainstream companies—allow employees to wear casual clothes on Fridays," she says. "Also there's flexible hours, the cafeteria that the company helps pay for, summer hours, or ordering lunch in on Fridays."

"There's a lot more sensitivity," Arnold concurs. "Flex-hours. Companies are even talking about more off-site employment and helping with child care. It doesn't really cost any money: If they can keep people happier and healthier, they're going to get a lot more productivity out of them."

Arnold also says many companies have begun to treat employees as part of a larger picture. "There's more emphasis on training, on employability," he says. "It's amazing how much money large companies are spending to keep people up to date. Intel Corp., with 26,000 employees, tells people that in three or four years they may not have a job because the technology's moving so fast. So they help people prepare for that." (An Intel official says that while the company encourages employee training, it does not issue an ultimatum.)

Winston, who feels that perquisites *are* changing along with the corporate culture, says that "we have moved away from using perquisites to distinguish the hierarchy of a corporation. We're moving toward more participative organizations, and therefore perquisites are used in a much more broad-based way—indeed, often down to the hourly workers. We don't have the executive washroom anymore. I don't think executives ever *liked* the executive washroom." —M.B.