# THE CONFERENCE BOARD REVIEW

IDEAS AND OPINIONS FOR THE WORLD'S BUSINESS LEADERS

# Unfair Business Practices

**ARE PERKS DIVIDING YOUR COMPANY?**

WOULD A CHIEF OF STAFF SOLVE YOUR TIME CRUNCH?

ARE YOU HAPPIER IN THE SUBURBS?

AUSTERITY, INEQUALITY, AND SLOW GROWTH IN 2012

THE CONFERENCE BOARD

Winter 2012
www.tcbreview.com

**ARE PERKS DIVIDING YOUR COMPANY?**

# UNFAIR BUSINESS

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BY VADIM LIBERMAN

**IT BEGINS WITH A CUP OF COFFEE.**

Suppose your company were to restrict access to the corporate coffee machine to senior executives only. Why? Because busy bigwigs shouldn't have to wait with plebeians for caffeine jolts. Sure, assistants to assistants also battle endless to-do lists, but let's be blunt: Regardless of who prizes whose time more, a senior leader's minutes are certainly more valuable to the organization. Thus, for everyone else, there's a Starbucks around the corner.

An executive coffee policy—absurd, right? But replace coffee with a company jet, and the ridiculous suddenly appears sensible. Maybe.

What might start with coffee and end with air travel bursts with a cornucopia of corporate perquisites: car allowances, country-club memberships, home security, financial-planning assistance, corner offices, telecommuting, reserved parking, reserved restrooms, reserved dining rooms. Reserved—that is, nonmonetary compensation restricted to individuals or groups based on any number of criteria.

Perks are unlike benefits, which employers offer to *all* workers: medical insurance, a communal cafeteria, on-site dry cleaning, a foosball table, several colorful items that pop up when you Google "Google benefits," and, thankfully, coffee. Whereas benefits can distinguish your company from others, perks mainly differentiate workers *within* your organization. And because the list of possible perks stretches wide, so can the gulf between your firm's haves and have-nots.

# PRACTICES

## WHO GETS AND WHO DOESN'T

What does it mean to treat people fairly? Ultimately, that's the central question here. While protestors pose it to Wall Street from the outside, it's worth asking it of corporations from the inside. Perks are ideal conduits to get at an answer because they're the most visible manifestations of how your organization sets people apart. (You may not know others' salaries, but you're painfully aware that the company isn't paying for you to tee off at the club this weekend.)

How do—how ought—you draw lines between who will have and who will have not? A common reply: Distribute perks that jibe with your company's culture. Obviously.

Not. Accepting this illogic legitimizes corporate-cultural relativism, whereby your company's approach is best because your organization says it is.

"Companies should ask, 'Which perks would align best with the culture we're trying to create?'" says Gaye Lindfors, a Minnesota-based consultant and former HR director at Northwest Airlines. Put differently, apportioning perks is not a *consequence* of but how you *create* corporate culture. "Actually, perks deserve more attention than other business decisions when defining culture because they are so personal," adds Jennifer Robin, a research fellow at the Great Place to Work Institute, a research, consulting, and training firm.

What do people deserve? When do they deserve it? Why do they deserve it? What does it mean to *deserve* anything? Your answers will shape your culture.

Yes, this is more philosophy than it is HR strategy. There's scarce research on corporate perks that pushes beyond describing to prescribing, which means that an HR director who wants to get perks right must aim to turn philosophy into practice.

**WHAT DO PEOPLE DESERVE? WHEN DO THEY DESERVE IT? WHY DO THEY DESERVE IT? WHAT DOES IT MEAN TO *DESERVE* ANYTHING? YOUR ANSWERS WILL SHAPE YOUR CULTURE.**

Here's how to ponder who flies in first class, who's in economy; who'll play golf, who'll watch it on TV; who gets an office with a window, and who gets an office with a window working from home. Who gets and who doesn't.

## DIMINISHED EXPECTATIONS

If only it were as simple as coffee. As the competition dangles more, and more valuable, shiny things to recruit and retain, you're perpetually forced to play a Darwinian game of Keeping Up With the Googles. Don't want to play? You'll still lose. You won't make best-places-to-work lists; talent will head elsewhere.

You've witnessed this with skyrocketing executive compensation. To an extent, similar criticisms apply regarding perquisites. "Just ten years ago, executive perks were based on competitive practices almost exclusively," explains Don Lindner, executive-compensation practice leader at World at Work, a provider of HR education, conferences, and research. "They would get out of hand." It took only one CEO down the street to get a new car to compel other corporate boards to channel Oprah: And *you* get a car, and *you* get a car, and *you* get a car. And you, Karen Kozlowski, get a Tyco-sponsored $2 million birthday party. And you, Jack Welch, get an $11 million GE apartment. Legalities aside, the dotcom era produced a golden age of perks.

Today, it's more of a copper age. Businesses began seriously slashing perks five years ago, after the SEC mandated disclosure of perks and personal benefits with an aggregate value of more than $10,000, down from $50,000. "Other compensation," the proxy-statement pay category that includes perks, fell from $338,815 to $228,929 between 2005 and 2010 for the top one hundred CEOs, according to compensation-analysis firm Equilar.

A bigger factor than the prospect of having to publicly defend the indefensible: the economy. Now that just having a job feels like a perk, it's unsurprising that the number of companies granting perks to CEOs has slipped, from 90 percent of organizations in 2009 to 78 percent in 2010 to just 62 percent in 2011, according to compensation trackers at Compdata Surveys. "The nature of perks is nowhere near what we've seen in the past," says Brett Good, senior district president at Robert Half International, a consulting and staffing firm. Good predicts that even when the economy gathers steam, no one should expect companies to start picking up birthday-party tabs. Instead, anticipate a continued rise in things you won't see on proxies: hoteling, flex workweeks, job-sharing, and other work/life perks that, for many workers, aren't perks at all.

## EVERYONE DESERVES (TO DESIRE) A TROPHY

So what does a CEO perk look like these days? In 2010, the most prevalent were supplemental life insurance (offered to 29 percent of CEOs), company cars (24 percent), and club memberships (22 percent), according to Compdata. There is, after all, cachet attached to perks perceived to have high monetary value—which begs another question: Does value reside in the perk or its status?

Decades ago, where you peed signified who you were. An executive-restroom key unlocked far more than a physical door. Where you urinate today typically holds less exclusivity, but some perks, like a company car, still carry trophy value. Except: Don't title and salary (known or perceived) already sufficiently convey status?

In a 2006 paper, "Are Perks Purely Managerial Excess?", University of Chicago B-school professor Raghuram Rajan and Harvard Business School's Julie Wulf write: "There are only so many corner offices or so many places on the corporate jet, and who gets them can signal the recipient's place in the pecking order better than cash compensation can." Does a leader also need a corporate Mercedes to flaunt feathers?

Rajan and Wulf speculate that "the CEO needs to be offered perks (in fact, the most perks) so as to legitimize the status attached to the perk: a prestigious country club membership would not convey as much status for other executives if the CEO did not belong to it." However, this fails to address perks that accrue only to the CEO, and it doesn't justify something like club memberships overall.

Interestingly, the authors reference the military, where medals confer status. They ask, "[W]hy can corporations not invent their own medals or ribbons, which will cost them virtually nothing, instead of paying with perks?"

Good question. Employers invented their own ribbons long ago—plaques and certificates. They don't convey status—you can't park a framed certificate in front of the HQ building, in a space emblazoned with your title—so much as reward performance. Rewards, like plaques, gift certificates, and other recognition tools, don't typically stoke feelings of injustice the way perks do because they seem more meritocratic. You do something well: You get something good. Perks, by contrast, accrue regardless of job performance.

Of course, when asked, corporations invariably insist that they link most perks to performance. Of those that actually mean it, some may even believe it. But what do they believe?

If—*if!*—considering performance at all, companies don't grant top officers perks such as subsidized apartments and business-class plane tickets with

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the goal of motivating low-level daydreamers. That's not to say a mailroom clerk isn't fantasizing right now about reclining, Prada-clad feet perched atop a big desk twenty floors up, but that's a mere side effect of executive perks. Rather, we think of perks more as components of compensation packages that aim to optimize the work of leaders.

Truthfully, Rajan and Wulf's question about perks versus rewards is a nonstarter. Companies can—and should—use each differently. One may lead to better performance, the other recognizes it, and it probably makes little difference which you offer first to improve performance. "It's management's job to start the chicken-and-egg cycle," recommends Jennifer Robin.

The more relevant issue: If a car, or any perk, were turned into a reward instead—that is, something you got as a consequence of rather than a precursor to doing a good job—would that impact performance? It's a tough question to answer because most companies don't dangle such extravagant rewards in front of anyone outside of the sales department. (Then, too, all this assumes that a link between perks and performance actually exists. For more on making—or not—the business case for perks, see "The Proof Is in the Perk," on page 49.)

## THE PRICE OF PERKS

None of us works for a corporation just for the fun of it. We're all paid salaries. Some of us get bonuses. A few of us enjoy stock options. We're all acutely aware of the numbers on our pay stubs—and what those numbers can buy. So why view perks differently than cash?

Because perks have a different perception value than cash. We emotionally connect to perks in ways we don't to dollars because we think of them less as standards and more as extras, and who doesn't like a little—or a lot of—extra? It's as though we're getting something for free—even if it's preposterous to stick a "free" tag on something over which companies and individuals haggle.

It's often easier for companies, particularly those strapped for cash—as well as candidates and employees—to negotiate perquisites rather than salary. "You can't replace big chunks of pay with perks," points out Don Lindner, "but if you're paying an executive at the median instead of the sixtieth percentile, then offering perks may be a way to keep that person."

Then again, because the greater currency of perks lies in perception, some corporations hesitate to offer them in lieu of cash. A country-club membership costs pennies next to a $20 million pay package, but on a proxy statement, those can be some contentious coins. For example, in 2008, General Motors CEO Rick Wagoner flew to Washington to ask Congress for a bailout aboard the company's $36 million jet. Twenty grand, the trip's approximate cost, pales in comparison to the $12 billion Wagoner asked from Uncle Sam, but it's probably a salary for someone's uncle Sam.

"If you're getting paid $2 million and the proxy reveals that you're also getting a $5,000 financial-planning allowance, it gives the impression that you're piggish," argues Steve Gross, a senior partner at HR consultancy Mercer. To fend off criticism, he recommends, the company should just increase salary by the perk's pecuniary cost.

And yet, the more firms pay execs, the more perks they give them. This indicates not only the obvious—some companies boast deeper pockets than others—but another explanation posited by Rajan and Wulf: "A senior executive may not be willing to pay out of his own pocket for executive jet travel if it were not offered as a perk since his private value for it may be far smaller than the benefit to the company."

Even so, not everyone is convinced that a person joins or leaves an organization based on first-class rides in planes, trains, and automobiles. "Perks make up only 5 to 8 percent of an executive-compensation package," Lindner explains. "They're not going to make the difference in recruiting or retention."

Agrees Gaye Lindfors: "People don't go to organizations and stay because of perks. What keeps them there is a feeling of engagement."

## BECAUSE YOU'RE WORTH IT?

Till now, an 800-pound gorilla has been lurking in this article—the entitled executive. Though no enterprise will cop to basing actions on entitlement, "it's probably the main basis on which companies continue to make decisions about perks," reveals Laura Sejen, global practice leader for rewards at Towers Watson. The problem isn't that people feel entitled to perks, it's that—

Actually, that *is* part of the problem. Steve Gross recalls working with an executive who demanded matching corporate sedans for him and his wife. The employee explained that should his car need repairs, his wife's would be a backup. "He was obviously a pig," Gross says.

"People begin to assume that perks are like benefits," adds Jennifer Rosenzweig, research director at The Forum, an HR consultancy affiliated with Northwestern University. "Companies have to be careful about getting into patterns of people expecting them."

"Hey," you might be thinking, "I worked hard to get to where I am, so damn it, I deserve a club membership." But you'd be confusing perks for position with perks for performance, which aren't perks but rewards. Also, you'd have to be high to think a high title accompanies high performance. A glance around your company should confirm the two are hardly synonymous. "But hold on again—I earn more money than others, meaning the company values me more, so give me my friggin' club membership too!" That argument would hold if cash and perks traded in equivalent currency, but since they don't, entitlement by any other name is still greed.

So: If employees who feel entitled are just part of the problem, the other part are the companies that inflate their egos. In the end, it's not someone who thinks the "C" in his title warrants entitlement but the organization that deserves an "F" for perpetuating it. The problem, of course, is that the "C" people run the company. It's a lot to ask the entitled to put down the Kool-Aid.

But that doesn't mean we shouldn't ask. "You face a challenge then," Sejen cautions. "If perks are not about hierarchy, you'll have a hard time defending why you've decided to make Person X eligible and Person Y ineligible." It is not, however, impossible. "As long as there are development opportunities and encouragement to get into higher positions, then differential perks based on one's position are less important," explains Jennifer Robin. Here's another way to look at it: If you give a perk to someone who feels entitled, that's OK—as long you don't grant the perk *because* someone feels entitled. Otherwise, adds Robin, "you create an environment of haves and have-nots, which can be damaging because that kind of mentality will work against you in the long run."

## FAIRNESS THROUGH INEQUALITY

Let's be real: No workplace ever could be completely egalitarian.

No workplace ever *should* be completely egalitarian.

Many of us assume the fact of the former to justify the latter, but even if total egalitarianism were impossible, shouldn't we at least earnestly push toward it and not let perfect stand in the way of good? And isn't workplace egalitarianism, you know, *good*?

"You don't want to create perceptions and resentment that top people are getting more at the expense of everyone else," says Steve Gross. "It's like asking me to go from an office to a cubicle while my boss keeps his giant office. 'If I'm making a sacrifice, where's yours?' The more perception of unfairness, the less likely you'll have engaged workers."

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Sure, pay and other factors already buttress office classism, but this article isn't *The Communist Manifesto*, and just because divisions exist in the workplace doesn't imply we shouldn't strive to minimize—or at least not maximize—them via perks.

While some organizations have eschewed perks in the spirit of fairness (see "The End of the Perk?", page 50), others use them to promote fair treatment. But what does that mean? It does *not* mean that everyone is equal, or even equally valuable. After all, each of us has different strengths and weaknesses. So when your CEO claims he values every employee, he's not lying. He's simply failing to add "just not equally."

Instead, think of fairness as equal consideration of workers' interests, or needs. For example, Google's benefits-and-perks priority is "to offer a customizable program that can be tailored to the specific needs of each individual."

"Too many times, organizations assume that fairness means equal treatment, but we have people performing different roles at different levels, so their needs will be different," explains Jennifer Robin. By matching perks to individual needs, she continues, "companies can send a signal: 'We understand you, and here are things that will make your job and life easier and that will also help the organization.'" You'll end up distributing perks unevenly, not unfairly.

## THE PROOF IS IN THE PERK

Businesses aren't as eager today to offer perks simply because the competition does. Instead, there must be a "business case," says practically every observer. But doesn't vying for talent serve a business purpose? You probably hear the business-case imperative so often that you nod approvingly without pausing to ponder the term's meaning or relevance. *Because you know it.* A perk must aid performance, engagement, productivity, *business*.

Indeed, "companies are now being more thoughtful about what's appropriate," says World at Work's Don Lindner. "Today, most companies are asking, 'Do we really need to offer a country-club membership?' They can't answer that, so we're seeing a lot of perks go away because they can't be shown to support attraction or retention."

Yet one in four organizations still offer CEOs club memberships. Do they have a business case? Yes, no, and maybe. It's no secret that a company can rationalize anything—everything—with a business purpose. Perhaps club memberships allow CEOs unique opportunities to broker deals. Perhaps not. Maybe the perk really does attract and keep talent. Maybe not. The point is, dig deep enough and you'll always unearth a business case for a perk. The real question is whether you can *prove* it. "If you can't show how perks support business strategy, you shouldn't be using them," Lindner suggests.

The "proof," however, tends to be anecdotal and correlative, at best. That doesn't mean you should dismiss such data or trash your perks. Rather, an absence of harder evidence likely reinforces what Albert Einstein knew: "Not everything that counts can be counted." —V.L.

### HAVING NEEDS

Sometimes needs pertain to the job. For example, only staffers who must be on call get to make calls from company cell phones. Or only a few leaders get private security due to their high-profile positions. "It's declassifying and re-crafting what have traditionally been status symbols into more functional perks," explains Jennifer Rosenzweig. In other words, providing people with the tools they need to do their jobs. But if something is necessary, not just nice, are we really still talking about perks?

Yes, because anything an organization gives to you and not me is technically a perk. Yet a nagging feeling remains: It's weird to regard necessities as perks. And that's OK. When employees cease to view perks as perks, class divisions erode, supporting teamwork and engagement.

Perks catering to personal needs are thornier. Often, these are work/life perks, such as telecommuting or Google's reimbursement of up to $500 for takeout meals to new parents during a newborn's first three months so employees can concentrate more on work. When a perk doesn't directly relate to a job, some may grumble, "Why don't I get that too?"

For instance, "I don't have, nor want, children, but I'm also crunched for time. Give me $500 for food so I can be more productive!" Jennifer Benz, a San Francisco-based HR consultant, parallels this example to tuition reimbursement. Imagine a staffer insisting, "I don't want to go to school, but give me the tuition money anyway." As if. "There's no need to justify every perk just because 100 percent of the workforce can't take advantage of it," Benz explains. "The important thing is to meet as many needs as possible." Indeed, employees eligible for other perks will rarely protest, as complaints usually arise in cultures of perceived disenfranchisement. At Google, you'd be hard-pressed to point to a neglected group.

## THE END OF THE PERK?

To promote greater egalitarianism, or at least the perception thereof, some companies seek to shun perks. "Intel does not have programs for providing personal benefit perquisites to executive officers, such as permanent lodging or defraying the cost of personal entertainment or family travel," reads the company's 2011 proxy statement. The company also boasts a goal "to maintain an egalitarian culture in its facilities and operations." In fact, former CEO Andy Grove, who said he despised "mahogany-paneled corner offices," famously worked out of an 8 ft. by 9 ft. cubicle, as does current chief Paul Otellini.

"[W]e do not normally provide perquisites or other benefits to our named executive officers that are not generally available to all eligible employees," reads the current proxy for JDS Uniphase, a communications-products manufacturer. The company adds that "executive officers are not entitled to operate under different standards than other employees"—meaning they don't get subsidized financial and legal advice, personal entertainment, recreational club memberships or family travel, reserved parking spaces, and separate dining facilities.

**BUT MIGHT ABOLISHING PERKS IN THE SPIRIT OF EQUALITY BEGET ANYTHING BUT? DOES IT MERELY SPREAD UNFAIRNESS EQUALLY?**

Other firms that tout egalitarian environments include Nvidia, Dell, and Hewlett-Packard. Not surprising that they are giants in the tech industry, where massages, dry cleaning, photo-processing services, catered meals, monthly wine tastings, and foosball tables continue to define workplaces. A true egalitarian enterprise, it seems, provides benefits to all, not perks to some.

But might abolishing perks in the spirit of equality beget anything but? Does it merely spread unfairness equally? "I've seen companies that have said they won't do anything unless it's equal across the board," reveals Jennifer Robin, co-author of *The Great Workplace: How to Build It, How to Keep It, and Why It Matters,* "so even if it makes sense for you to work from home, you're not allowed because another group of workers can't. Even if it makes sense to have a laptop because you travel, 'You can't have one because we can't give everyone a laptop.' You end up with an over-structured organization." Impressive intentions with oppressive outcomes.

Ultimately, it's impossible and impractical to treat everyone identically—*someone* has to sit in the corner office, or corner cubicle. Someone will always get something that someone else does not. Some people need laptops, some need to telecommute, some need (depending on how you define the word) to fly on the corporate jet. "Intel's company-operated aircraft hold approximately 40 passengers and are used in regularly scheduled routes between Intel's major U.S. facility locations, and Intel's use of non-commercial aircraft on a time-share or rental basis is limited to appropriate business-only travel," the company's proxy continues. JDS's proxy also points out: "[CEO] Mr. Heard received a total of $95,125 to assist with his relocation to Germantown, Maryland. Additionally, Mr. Heard received a commuter allowance of $20,000 for the period from October 2010 through May 2011."

Intel and JDS—and, no doubt, other businesses—don't have true zero-perks policies. Thus, JDS's statement that it does "not normally provide perquisites or other benefits to our named executive officers" is true only so long as the emphasis is on *normally*. —V.L.

Nevertheless, timesaving perks are hardest to defend. We're all squeezing ninety into sixty minutes of work, so why should CEOs fly aboard a corporate plane while you languish in baggage check? "The CEO has to spend most of his time and energy on the job. This isn't as much the case lower down," explains Don Lindner. "This perk will do the most good at the highest level." In other words, your CEO values every employee, just not equally—*and he (and the board) values himself most*.

Subsequently, the perk becomes not the plane but, rather, time itself. It makes sense for an enterprise to give more to those who have less of it. Overall, though, time-related perks are perhaps the only ones for which you become increasingly ineligible the higher up you go. It's easier to grant flextime to an accountant than to the CFO.

## TRUE VALUE

Because people have different needs, they predictably value perks differently. "What is important to you may be unimportant to me," says Steve Gross, who cites a Mercer executive who worked his way up to a senior level but turned down a larger office. "He couldn't care less," recalls Gross.

Not everyone wants to work in pajamas, park near the entrance, or fly Air Your-Company-Name-Here. Suppose a company were to extend corporate-aircraft access to everyone (about as likely as restricting coffee to the C-suite). If 99 percent of workers have no business need to fly, what good is access without usage? The organization would be boasting nothing but lip service to egalitarianism based on a worthless perk to most employees. Take note: Individuals, not the company, determine the subjective values of perks.

Now, some people—get ready for this—desire status. Should the company satisfy that need too?

Equal consideration of interests is just that—consideration. It is not equal fulfillment. All needs are not of equal value, so the best, if imperfect, approach is to carefully weigh different interests when deciding on perks, including one's need for status versus everyone's perceptions of fairness. "I worked with a company that offered reserved parking to directors and above. It was clearly a status thing," recounts Laura Sejen. "The company consistently talked about valuing teamwork. There was a disconnect for lots of employees, who saw who the company thought was really important." Everyone already *knew* who was important; there was no need for parking spots to reinforce that.

Of course, you can argue that a director's time is more valuable so he should get to park upfront, but you can make the my-time-is-more-important-than-your-time case for almost every perk. That doesn't mean you should, especially when balancing it against perceptions of injustice and possible disengagement. At Google, for example, special parking spots go only to pregnant women, the handicapped, and people needing outlets to plug in electric cars.

Similarly, you could argue that financial-planning services for top leaders save them (their more valuable) time, but "it's probably not your senior executives but your lower-paid individuals who need help with financial planning most," says Jennifer Benz. "Why not offer it to everyone?"

*Why not?* Silicon Valley has been transforming perks into benefits for years. Whether tech companies such as Google offer endless lists of benefits to recruit and retain, allow employees to do their jobs better, or simply keep workers tethered to the office, the search giant is inching closer to an egalitarian environment and engaging people. "Slanting things that can support the whole workforce toward senior executives is not the best use of resources," Benz says. "A lot of companies are still very shortsighted and have traditional views of their workforce and are hesitant to implement programs that we know help people do their jobs better."

Other times, you may have to remove perks because revenues are down or they don't seem to impact performance positively. Taking them away can feel like a breach of an emotional contract for employees. "It's like ripping off a bandage; it's going to hurt," says Jennifer Rosenzweig. "But being forthright and transparent will go a long way to keeping employees' trust."

Ultimately, you'll need to develop a fair system of perks to compete in the marketplace and function well. Whether you add or subtract perks or turn them into benefits, you may still never purge your organization of entitlement or meet everyone's job and personal needs. But isn't it worth trying? ■