'Don't Touch My Perks': Companies that Eliminate Them Risk Employee Backlash

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Earlier this summer, when employees first learned of a Google plan to upgrade and dramatically raise the price of its day care program, they wept, according to an article in the *New York Times*.

The price for infant care rose from $1,425 to $2,500 a month and the cost for two children in the day care program went up from $33,000 to $57,000 a year. The two-year waiting list of 700 families fell off by more than half. And Google, which has enjoyed a largely charmed reputation in the press, was chided in the *Times* headline for making a "rare fumble" with the changes to its daycare program.

Wharton faculty and compensation experts say the flap over Google's decision to change its employee day care program illustrates the difficulty in eliminating any employee perk. "Once you have the perk, to take it away is seen as a violation of a psychological contract you have with your employee," says Wharton management professor Nancy Rothbard.

Employee perks can range from traditional offerings -- such as a company car, use of the corporate jet and extended retirement benefits -- to highly personalized perks, such as personal trainers, laundry service, and pet-friendly offices. At Google, parents get $500 to spend on takeout dinners during their first weeks with a new baby.

Employee perks have been scaled back after outrage over lavish employee perks led to tougher SEC disclosure rules in 2006. The rules were prompted, in part, by bad press over revelations coming out of former General Electric CEO Jack Welch's divorce case, including information that the company granted him such post-retirement perks as an $80,000-per-month Manhattan apartment and court-side seats to New York Knicks games. Tyco's former CEO Dennis Kozlowski received a $2.5 million apartment in New York's Trump Tower and a $15,000 dog-shaped umbrella stand, among many other perks. Even Warren Buffett is not above accepting perks. He calls his corporate airplane "The Indefensible" and once told an Australian newspaper: "I put it in our annual report in the tiniest type I could find."

'Owning a Perk'

The current economic slump could trigger another round of 'de-perking'. "Boards were pushing back on some of these perks because they thought they didn't look good," says Wharton management professor Peter Peter Cappelli. "But I think that passed, and now the issue is whether these practices are important in recruiting and retaining people. If the economy softens, there will be push back again. We did see that when the economy softened in 2001."

Cappelli suggests that inexpensive, or no-cost, perks -- such as casual-dress days, free coffee and food discounts -- may not add much to employee morale or productivity, but they don't hurt the bottom line much either. And companies should be careful about how they go about reducing or eliminating them. "If you are taking anything away from employees, it's important to explain the need for doing it," he says. "It helps a lot if the need is something driven by factors outside the firm. The need to improve share price isn't going to satisfy a lot of people."

Wharton management professor Sigal Barsade agrees. "I do not recommend taking away perks, but if a company has to, management needs to remember that taking things away from people almost always leads to feelings of unfairness," she says, noting that employees typically come to feel that even a small perk is something they "own." To remove it is one of the most direct routes to employee anger, which in turn, leads to lower levels of motivation and retaliatory behavior. The retaliation can take on a psychological form, such as less commitment to the job, or a behavioral form, such as working less hard. "If management does such a thing, it has to be very sure to explain very, very clearly why it was necessary -- in a way that seems fair to the employees," says Barsade.

While perks have historically been used mostly for top executives, Rothbard notes that when times are good, companies may add more perks lower down in the organization. Part of the problem at Google, she says, was that the price hike was perceived as limiting accessibility to a perk that previously was enjoyed by, or at least offered to, a large number of employees.

Google first began offering day care three and a half years ago through a contracting firm, according to the *Times* article. A year later, the company opened another center operated by Google itself that was even more upscale than the first center. Eventually, the company realized it was subsidizing each child in its day care program by $37,000 a year, compared with the $12,000-a-year average subsidy of other big Silicon Valley companies, the *Times* noted. Instead of scaling back on costs so more employees could participate, Google chose to close the less expensive center and expand the lavish one, dramatically raising prices to pay for it. "It's hard to say they were deliberately trying to exclude people at lower levels," says Rothbard. "It seems to me that the emphasis was on quality and wanting to provide an excellent opportunity for employees -- it just came at a higher cost."

Ditching the Company Car

Not all perks are excessive, and many do serve their purpose of motivating employees and making them more productive, according to Julie Wulf, a professor of business administration at Harvard Business School. While a professor at Wharton, Wulf co-authored a 2006 paper titled, "*Are Perks Purely Managerial Excess?"* that studied more than 300 publicly traded firms between 1986 and 1999 and found that many perks are designed to improve executive performance and the firm's overall results. "We found that while perks have this perception that they are excess, our results showed that while there may be excess at the extremes, on average, there seems to be evidence that firms offer perks to enhance the productivity of executives," says Wulf.

According to an analysis by Towers Perrin, the executive compensation consulting firm, 11% of Fortune 500 companies disclosed they had cut out perks in their 2007 proxy statements. The top item cut was the company car, followed by club memberships, financial planning services, insurance benefits and security measures.

The new SEC rules require companies to disclose perks and personal benefits with an aggregate value of more than $10,000. Perks valued at more than $25,000 (or 10% of the total value disclosed) must be quantified in footnotes. The SEC also helped clarify the definition of a perquisite or personal benefit as anything that "confers a direct or indirect benefit" that is personal, even if it is provided as a business-related expense.

Paula Todd, a Towers Perrin executive compensation consultant based in Stamford, Conn., notes that most companies have "scrubbed" unnecessary perks off their books. In some cases, companies are now required to report "perks" that are a personal benefit to executives, but that were not asked for, or even wanted. For example, she says, companies often hold board meetings in foreign countries and require spouses to attend and help host social events. If the spouse comes in the corporate jet, that portion of the cost of the flight must be disclosed. "Many of those spouses don't view it as a vacation," she says. "There are a lot of what the SEC calls 'perks' that, frankly, the person receiving them would say, 'Thanks for nothing.'"

Another common example is expensive security systems that companies install at their executives' homes to protect them, and by extension, the business. "You see big numbers related to security systems, but the individual would probably say, 'I'd rather have the cash, thank you.'" On the other hand, Todd says, the right perks are "worth their weight in gold." She has seen some executives turn away cash compensation in favor of use of a company car valued at much less money than the salary turned away "just because of the emotional connection he or she has to the perk. There's an alchemy to choosing the right perks."

Todd points out that the need to customize perks has grown stronger as the executive ranks have become more diverse. "In the old days, the management team was made up of older white men who all wanted the same thing," she says. "Now, some people with young kids value supplemental child care over membership at the club." According to Rothbard, employees and employers frequently create their own "idiosyncratic deals" in which employees determine what perks are especially meaningful to them. "Often you have to keep these deals quiet so others don't feel their [own] deal is bad," she says, adding that these arrangements are more appealing to companies and individuals than "offering blanket perks to everyone in lean times."

Work-family perks, she says, can be an important tool in attracting employees to a firm and improving productivity. Google, despite its recent bad press, provides many perks intended to keep people at work -- such as wireless Internet service on its commuter buses so employees can work on their way into the office and a full-service cafeteria that is open around the clock so they can put in longer hours. The technology industry in Silicon Valley, she says, has been a leader in the design of innovative perks because it operates in a highly competitive local environment where it is easy to move laterally between companies.

Food, Flowers and Phones

Meanwhile, some companies are extending perk packages that their employees can choose to accept or ignore, according to Chris Hill, CEO of perkspot.com, a Chicago firm that manages employee discount programs for corporations. Cell phone companies, local restaurants, 1-800-FLOWERS and other businesses are eager to offer discounts to employers who, in turn, pass along the discounts to their employees. Employers win because they can provide a benefit to their employees that costs nothing, and vendor companies win because they can access new customers for their products, according to Hill. "We have seen an expansion into voluntary benefits. As the costs of health care and traditional benefits are rising, employers are looking to provide -- at no cost to them -- something that's perceived of as valuable to the employee."

Indeed, company executives appear willing to trade off pay for pension benefits, according to research by Joseph Gerakos, who examined the issue in his Wharton PhD dissertation. Now an accounting professor at the University of Chicago, Gerakos studied a sample of S&P 500 CEOs in 2005 and found a 48-cent decrease in pay for every dollar of pension benefit added. Further, he found that executives with more control over their boards were able to trade off less than CEOs without as much influence over board members. "It is worth considering the extent that employees trade pay for perks," says Gerakos. "Absent tax benefits, employees may prefer cash to perks and may be willing to take a dollar reduction of perks for a less than dollar increase in pay."

Rothbard points to another reason companies are unwilling to eliminate perks: They don't want to lose their place on lists of good companies to work for. "Companies that don't have perks aren't on the lists," she says, acknowledging that "perks are not the only thing companies need to make it." Google has been named *Fortune* magazine's "Best Company to Work for" the past two years.

Cappelli notes that despite the peril of withdrawing a perk, some managers may be happy to see them go. Most perks, he says, are initiated by the central administration, but front-line managers are then left to oversee them. "The front-line managers typically have wanted more direct control over the employees and don't like centrally imposed perks and ways of managing," he says. In terms of actually managing mandated employee perks, such as flex-time, it is the line supervisors who have to find a way to keep the company running, if, for example, too many employees want to flex their hours on Monday mornings and Friday afternoons. "It's more of a headache for these managers," says Cappelli. "And they don't see the need [to have these perks] when the economy is going down and people aren't quitting anyway."