Boards Purge Perks in Favor of Cash Allowance for Execs

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Fortune Brands, United Technologies and Lockheed Martin are among the growing ranks of companies slashing perks and boosting executives’ cash compensation to make up the difference.

Pressure on perks, which has been climbing since revelations of Dennis Kozlowski’s shower curtain and Jack Welch’s box seats and flowers, reached new heights this year. As investors, the media and regulators rail against rising executive pay, they have latched on to perks as symbols of executive greed.

Companies including Sunoco, Xcel Energy, and Ryder System are simply cutting perks out altogether. They responded to the pressure on perks by telling executives to foot their own bills for country club memberships, aircraft travel, limos and other perks that make investors’ blood boil.

Of course, many executives are not willing to just give away compensation in the form of perks they have already been receiving. Perhaps sensitive to this, some boards are boosting executives’ cash compensation in an attempt to make up the difference.

“We’ve decided to pay the people a dollar amount, and if they choose to pay for a country club membership, then so be it,” says Marsha Johnson Evans, the former CEO of American Red Cross and a director of Office Depot, Lehman Brothers and Weight Watchers.

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Lockheed, for instance, will no longer pay for club memberships, financial counseling or a car and driver for commuting. Instead, it
increased cash compensation for its top five officers, ranging from $30,000 for CEO Robert Stevens and CFO Christopher Kubasik to $25,000 for three other officers.

Ryder System eliminated perks that were part of its executive severance agreement. Severed executives had been eligible to receive a car and financial planning allowance throughout the severance period.

Yet, there are still plenty of companies clinging to the perquisites they offer executives. These companies are fearful that eliminating perks entirely would put them at a competitive disadvantage in their attempts to retain, motivate and attract talented executives. In fact, Black & Decker, Whirlpool, Centene, Anheuser-Busch and Northern Trust and Waddell & Reed all included a defense of their perk programs in their recent proxy statements.

In Waddell & Reed’s defense of its perk program, the financial services firm makes a case for perquisites over a cash allowance. It says that perquisites offer well-paid executives a “tangible” incentive that cash can’t provide.

Still, the ranks of these holdouts are dwindling as more comp committees realize that the public relations problems created by even the smallest perks are not worth the hassle. Take Jeff Bezos, CEO of Amazon.com, for instance. Last year, he had a salary of just $82,000. But the company was widely criticized for paying for his personal security.

And while the AT&T comp committee is working to get the message out that the company's performance has been outstanding and its executive pay levels are reasonable, the argument gets drowned out by the cries over the CEO's $20,000 country club dues paid by the company.

“One of the most foolish things a company can do is give the media the opportunity to criticize it by offering perks,” says boardroom guru Marty Lipton, of Wachtell, Lipton, Rosen & Katz. Lipton joined Evans on a panel at the recent New York University Directors' Institute.

By cutting perks out altogether, companies avoid having to disclose the individual perks executives receive. This has become increasingly important as the rules for perk disclosure have changed. The SEC now requires disclosure of perquisites if their value exceeds, in aggregate, $10,000, which is down from the previous $50,000 threshold.

Some companies are going beyond the new requirements of the SEC that mandate that they clearly lay out the perks executives receive, and their values. Hewlett-Packard, for instance, in its recent proxy statement disclosed the perks it offers executives in tabular form. This raises the question of whether such disclosure will embarrass companies into joining the growing group of perkless companies.

Aside from external pressure forcing boards to reconsider perk programs, some boards see warning signals when executives demand perquisites as part of their pay programs.
“I don’t believe in perks,” says Home Depot co-founder Ken Langone, who has seen his share of PR challenges when it comes to executive compensation. “CEOs who are concerned about perks aren’t the guys who I want running the company. They are nickel-and-dimers. I want them to think big.”

One CEO candidate once asked Langone about the company’s pension plan. “I told him this job wasn’t for him,” Langone says. “I want the CEO to think big, to make so much money the pension will be insignificant.”