Business Management Dynamics
Vol.5, No.4, Oct 2015, pp.10-15

An examination of executive perquisites and their relationship to strategic productivity

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Abstract

For well over 50 years, researchers have explored the relationship between executive compensation and company performance, often with mixed results. However, regardless of which valuation methodologies one uses, or the limitations one accepts, the reality is that executive compensation represents a significant expense for United States corporations. CEO's and Executive Level Vice Presidents are engaged in almost pure strategic planning, industry analysis and environmental scanning. This study examined some actions companies can make to remove distractions, reduce delays and save the executive time to focus on their work. The authors explore the relative costs of various time saving programs and assistance, and explore the potential productivity benefits of such assistance.

Key words: Executive, Compensation, Executive Perquisites, Strategic Productivity, Strategic Management

Available online
www.bmdynamics.com
ISSN: 2047-7031

INTRODUCTION

For well over 50 researchers years the relationship between executive compensation, especially CEO compensation and its relationship to company performance has been studied (Festinger, 1957; Tosi, Werner, Katz, & Gomez-Mejia, 2000; Gomez-Mejia, Berrone, & Franco-Santos, 2010; Campbell, 2015). Although the results have been mixed, many detailed studies of the relationship between executive compensation and company performance have found a small, but ultimately statistically significant correlation between the two.

For several decades, executive compensation growth in the United States exceeded comparable growth in general employee compensation. However, as a result of financial reporting scandals involving Enron and WorldCom, the United States Congress passed the Sarbanes-Oxley Act in 2002. As a result, corporations are now required to have a majority independent board of directors. In addition, corporations are also required to have a fully independent compensation, nomination and audit committees (Cohen, Dey, & Lys, 2013). The Securities and Exchange Commission (SEC) of the United States, which regulates matters relating to corporate reporting and governance, has made efforts to limit and clarify executive compensation. The SEC set a limit of one million dollars as the maximum amount a company may deduct for "nonperformance based" compensation. In addition, the SEC requires companies to include the compensation paid to their top five executives in the annual reports (Polsky, 2007). However, as with many regulations, corporations have been able to find the loopholes and utilize alternative methods to reward executives. As a result, the amount ultimately received by top level executives has continued to rise.

Even the components of executive compensation are in dispute. In addition to basic salary, most executive compensation packets include very lucrative components such as annual bonus, short and long term stock options and awards, perks, deferred compensation provisions and often generous retirement options. Even with SEC guidelines, there is also dispute as to how to accurately value the various components of executive compensation. As a result of these ambiguities, reports of medium executive compensation for the same reported population, often the Fortune 500 or the Fortune 200, can range from 10 – 12 million to closer to 25 – 30 million. Most studies acknowledge that ambiguities in compensation valuation exist. Combing through numerous studies, it is clear that much of an executive's compensation resides in stock portfolios that have shifting valuations, annual bonuses that are subject to manipulation, delayed compensation plans and potential severance or retirement packages that shift a significant portion of an executive's compensation and an organization's expense to a future date.

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Therefore, it would appear that the higher estimations for executive compensation are more likely to be accurate.

Regardless of which valuation methodologies one uses, or the limitations one accepts, the reality is that executive compensation represents a significant expense for United States corporations. Therefore, regardless of how an organization reports, values, or delays an executive's compensation, the reality is that the organization needs to take steps to maximize the executive's productivity during the time they hold their positions. Research has shown that as a person advances through the corporate ranks, their job duties become more and more strategic in nature. At the very top, CEO's and executive level vice presidents are engaged in almost pure strategic planning, industry analysis and environmental scanning. Therefore, any actions the company can make to remove distractions, reduce delays or save the executive time would then allow then to focus on the strategic analysis that the company is paying so dearly for.

In an earlier study, (Campbell, 2015) the authors found that average CEO compensation for a Fortune 500 company based in the United States was approximately $12,000,000 a year. For the purposes of clarity, this study will stipulate that executives will work 50 hours a week for 48 weeks a year. Therefore the hourly compensation for the average Fortune 500 CEO would be $5,000 an hour. In the same study, the authors found that Executive Level Vice President compensation for a Fortune 500 company based in the United States was approximately $6,000,000 a year. Therefore, an Executive Level Vice President working the same hours and weeks will have an hourly compensation rate of $2,500 an hour. Granted, these figures are rounded to provide easily understood hourly compensation rates. However, they reflect the true median values for Fortune 500 level CEO and Executive Level Vice President compensation, and frankly come nowhere near the upper levels of reported executive compensation. Therefore, the authors are comfortable in utilizing these hourly compensation figures to analyze the following sections.

ASSISTANCE

When one begins to consider the sheer range of personal assistance that a well-paid individual can choose to employ to help with common tasks, the list can easily stretch beyond the bounds of propriety. Although Butlers and Valets are not prevalent in the United States, there are certainly many individuals filling these rolls even now in the United States. In addition, it is not hard to accept the benefits of housekeeping, childcare or even personal kitchen staff in the households of top level executives, and certainly these positions are far more common. However, this study will limit the analysis to those individuals, services, and amenities that can be most closely tied to maximizing the executive's work day productivity.

One only has to look at the massive number of time management books and articles to clearly see that one of the major complaints of most managers is that 24 hours per day is not enough time to do all the things that need to be done. The question isn't do executives need assistants but how do we make assistants available to executives. With pressure on many public traded companies to improve their bottom line companies they often cut lower paid employees i.e. assistants. Melba Duncan (Duncan, 2011) suggests this is based on a misguided sense of egalitarianism gives a sense of we are in this together. Further Duncan states, "Work should be delegated to the lowest-cost employee who can do it well."

Michael Mankins states that the average senior executive team spends less than three hours per month together in strategic planning sessions (Mankins, 2004). Companies are willing to outsource parts of their manufacturing process to lower cost firms, why not use this same mindset to allow executives use of assistants to increase their productivity?

The Bureau of Labor Statistics, a division of The United States Department of Labor, gathers and compiles compensation data for employment positions across the working spectrum In the United States. According to the April 2014 Occupational Employment Statistics study (OES), compiled by the Bureau of Labor Statistics, the compensation for "Secretaries and Administrative Assistants" is between $22,000 for the bottom 10% to a high of around $60,000 for secretaries in the top 90%.

The secretarial and office assistance staff have long been an established component of a productive executive's office. Obviously, an executive secretary would be a necessity for any top level executive. Not only would the executive secretary be able to supervise other office staff, they would also act as gate keepers, effectively keeping non-essential problems from reaching the executive. Even at the top level of the OES pay scale, a $60,000 a year executive secretary would only need to keep one hour a month of unnecessary distraction away from the CEO, or two hours a month of distraction away from an Executive Level Vice President for their entire annual salary to be covered by the increased executive productivity. In addition, it is not unusual for a CEO to have additional secretarial assistance to handle personal correspondence, and possible additional dedicated staff to handle research or other provide other technical assistance. The 2014 OES survey indicated that "Secretaries and Administrative Assistants" receive approximately $45,000 a year if they are in the 75% bracket. If each additional secretarial staff is able to keep 45 minutes of unnecessary distraction away from the CEO in a month, they will have covered their annual salary.

Ironically, the position of "Personal Assistant" which is one of the lower paying positions associated with support staff, would have to be considered one of the most cost efficient. The 2014 OES survey indicated that "Secretaries and Administrative Assistants" receive approximately $35,000 a year if they fall in the middle. The old cliché of bring me my coffee and pick up my dry cleaning is a staple of the comic genre. However, the simple fact remains that at $35,000 a year, the personal assistant only has to keep 7 hours of unnecessary distraction away from the CEO in the entire year in order to cover their salary. If they only spend 2 minutes a day getting coffee for the CEO, they will exceed the 7 hour time savings in a year. Just imagine the cost savings when you include a few saved trips to the dry cleaners, not to mention the other countless hours of other errands and assistance that are part of the calling.

TRAVEL

Like most employees, CEO's and Executive Level Vice Presidents are faced with the necessity of the daily commute. The travel from home to work, work to meetings, work to dinning, work to home can easily consume several hours of an executives valuable time in a week. Therefore, any actions that a company can undertake to reduce these distractions, or to allow the executive to continue to focus on their work during the unavoidable times of travel can provide a valuable return in productivity.

The daily commute can easily be one of the more costly pursuits in lost productivity. A thirty minute to a one hour commute, each way, is common in most major cities in the United States. Therefore, it is not unusual for a company to provide an automobile and driver to allow the executive to make more productive use of these travel times. The 2014 OES survey indicated that "Taxi Drivers and Chauffeurs" receive approximately $37,000 a year if they are in the 90% bracket. Even with only a 30 minute drive each way, the chauffeur's salary will be recovered in less than two weeks of travel for the CEO. If the commute were to be only slightly longer, or add in a drive to a meeting or to lunch and it is conceivable that the chauffeur's salary would be recovered in the first week of the year. The cost of providing a car and driver for even the relatively more modestly paid Executive Level Vice Presidents would likely be recovered in under three weeks. Therefore, it is easy to argue that providing a suitable car and driver can easily be justified when the benefits in increased productivity are considered.

CORPORATE JET

Weighting the assorted benefits of given assistants and perks for individual executives is relatively easy. Given that the hourly compensation for the CEO and the top five Executive Level Vice Presidents would come to about $17,500 an hour, or about $300 a minute, several services become truly beneficial when considering their collective use by all members of Top Management Team.

As easy as it is to justify the benefits of a car and driver, the numbers are a bit murkier when one considers the benefits of a private corporate jet. Certainly the necessary salary requirements for a suitable crew can be absorbed. The 2014 OES survey indicated that "Airline Pilots, Copilots, and Flight Engineers" receive approximately $156,000 a year if they are in the 75% bracket, and approximately $115,000 a year if they are in the 50% bracket. Arguably a pilot and copilot can be retained for around $250,000 - $300,000 a year. The addition of a "Flight Attendant" at the 2014 OES survey level of approximately $51,000 a year at the 75% bracket would bring the whole cost of the flight crew in under $350,000 at most. At this rate, the company would only need to recover 70 hours of lost productivity for the CEO alone in order to cover the entire annual salary of the flight crew. Were the CEO to travel with only two members of the Top Management Team, then the company would only have to recover 35 hours of lost productivity to cover the entire annual salary of the flight crew.

The real cost of a private jet will of course be the expense of purchasing or leasing the jet itself, as well as incidentals such as gas and maintenance. Unlike a luxury car which can be purchased for less than $100,000, or more likely leased for around $20,000 a year, the cost of acquiring a private jet is significantly more expensive. The Gulfstream G550 is one of the most popular corporate jets on the market today. According to Gulfstream, a new jet can be purchased for approximately 50 Million dollars, and have an expected resale value of 25 million dollars after 10 years. Another common option is for corporations to lease a Gulfstream G550 for around two to three million a year. This would bring the average cost for the plane to about 2.5 million a year. Insurance, maintenance, and the flight crew would add an addition 2.5 million annual cost to the cost of the plane. Given that the CEO will often travel with two or more members of the top management team, the company would only have to recover 500 hours of lost productivity a year to cover the annual expense of a corporate jet.

According to the United States Energy Information Administration, a corporate jet will get approximately 3 miles per gallon at cruise. Given that the price of aviation fuel averages about $4.24 a gallon, the cost of fuel will be around $1.41 a mile. Since a Gulfstream G550 will cruise at around 500 miles per hour, this does increase the cost of a private flight by about $700 an hour. However, the cost to fly a CEO and two or more additional personal on a commercial flight would easily exceed the additional fuel cost for a corporate jet that can carry up to 18 personal in addition to the flight crew.

Therefore, the authors would argue the benefits of maintaining a corporate jet for the use of executive travel. The ability for the executives to work in relative comfort and the security of allowing them to engage in strategic planning have to be considered. In addition, the availability of a corporate jet is frankly an expected perk. The lost productivity and strategic disruption caused by frequent executive turnover has got to be considered when weighing the potential costs and benefits of a corporate jet. Given the time savings of not having to arrive early or navigate a large commercial airport, not to mention the hours lost in layovers and delays, productivity can easily be recovered.

TOP MANAGEMENT TEAM

The critical purpose of the members of the Top Management Team is to conceive, propose and coordinate corporate strategy. Therefore, it will be necessary for all six members to meet regularly. In addition, some or all of the members of the Top Management Team will also meet regularly with other employees of the company, or with government and corporate representatives. Therefore, a suitable conference room is certainly in order. In addition, it would be fiscally responsible to have the conference room in close proximity to the executive office suites. Given that $17,500 an hour translates to approximately $300 a minute for all six members of the Top Management Team, even a short wait and subsequent trip in an elevator can conceivably be expensive.

Dinning is also a critical activity that a company would do well to consider. Given the expense associated with the Top Management Team, as well as the necessity for them to be able to openly discuss corporate strategy, the expense associated with an executive dining room can easily be absorbed. The 2014 OES survey indicated that “Chefs and Head Cooks” receive approximately $74,000 a year if they are in the 90% bracket, and approximately $58,000 a year if they are in the 75% bracket. Include one or two “Food Preparation Workers” for around $25,000 a year each, a “Dishwasher” for around $20,000 a year and perhaps two or three “Waiters and Waitresses” for around $30,000 a year each and the company can staff a fully functional top quality executive dinning service for $300,000 a year at most. Given that the entire cost of staffing the executive dinning service would only need to recover 17 hours of Top Management Team productivity in a given year to cover their entire annual salary, then again the benefits of providing such a service are clear.

Even the cost of more mundane services has to be considered when the company is seeking to maximize productivity of $300 a minute. Everyone who has had to wait a few minutes for an elevator, or had a delayed trip as people entered and exited on various floors should understand that for $300 a minute there might need to be a dedicated elevator for the executive office suites. General pricing information available from Otis Elevators indicates that an elevator can be installed for approximately $25,000 per floor up to about 20 stories. Therefore, a dedicated elevator for Top Executive use only can be installed for about $500,000. Given an elevator has a projected life span of 10 years, this would come to about $50,000 a year. Given the Top Management Team earns $300 a minute, a private elevator would only have to recover 167 minutes of lost productivity a year to cover the cost. This breaks down to only 41 seconds a day.

Likewise, dedicated parking, or an appropriately sited drop off zone would also be essential given the costs of even minor delays. Even such routine services as a restroom have to be considered when a company is paying the top management team $300 a minute. In a 10 hour work day, each executive can be expected to use the restroom around 5 times. With the additional staff and assistants working in the executive office spaces, as well as other employees and guests who will likely be coming and going, it is clear that there may well be some benefits for a dedicated executive bathroom. For $300 a minute, the company just cannot afford for the executives to have to wait to go.

CORPORATE STRATEGY

Clearly many forms of assistance and convenience can be shown to be a cost effective means to decrease wasted time and effort for members of the top management team. However, it is essential to understand why it is necessary to free the members of the top management team from distractions. Research has clearly shown that the primary function for the members of the top management team has to be focusing on corporate strategy. Corporate strategy addresses the question of how to establish an overall game plan for managing an organizations assets for the best results (Gamble, et.al, 2015). Writing for McKinsey & Company, Bradley et. al., (2012) stressed that a powerful means of coping with today's more volatile environment is increasing the time a company's top team spends on strategy. Involving more senior leaders in strategic dialogue makes it easier to stay ahead of emerging opportunities, respond quickly to unexpected threats, and make timely decisions.

However, Mankins, (2004) has found that almost 50% of Executives say that they are not spending enough time on strategic priorities. Furthermore less than 10% are happy with their time allocation. The question isn't do executives need assistants but how do we make assistants available to executives. With pressure on many public traded companies to improve their bottom line companies they often cut lower paid employees i.e. assistants. Melba Duncan (2011) suggests this is based on a misguided sense of egalitarianism. Further Duncan states, "Work should be delegated to the lowest-cost employee who can do it well." Given that the average Fortune 500 CEO earns about $5,000 an hour, it should be clear that monies spent to free up their time is money well spent.

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