

## Off Balance at the Top

Executives Raid the Tip Jar to Feed Their Piggy Banks

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If corporate executives are wondering why they are held in such low esteem by the public, and even their own employees, they might consider two recent stories -- one about airport skycaps, the other about the chief executive of one of the country's most aggressive mortgage lenders.

On Monday, a federal jury in [Boston](#) determined that [American Airlines](#) deprived nine skycaps at Logan airport of \$325,000 in tips over the past two years by imposing a \$2 fee for curbside bag checking.

Up to that point, the skycaps had been paid \$5.15 an hour, below minimum wage, but typically took in \$200 a day in tips from passengers who are eager pay a couple of bucks to have a friendly porter whisk them through the check-in process.

You would think that at a time when passengers are frustrated by long lines inside the terminal and grumpy about the deterioration of service in general, that airline executives would look to expand upon its successful curbside operation rather than try to squeeze it for an extra tenth of a point in profit margin.

After all, with curbside checking, passengers voluntarily pay a premium for a necessary function that would cost the airline four

times as much if it were performed inside by a ticketing agent who earns, say, \$15 an hour plus benefits. And in the porters, the airlines have highly satisfied and highly motivated employees whose pay not only varies with the quality of their work, but also varies with airline traffic, going up when times are good and down when times are bad.

But as is their wont, airline executives were not content to leave well enough alone. Rather than raise ticket prices to reflect the reality of higher fuel costs, they decided they could improve their bottom line by robbing the tip jar of their most visible front-line employees.

Of course, they deny that's what they are doing. The \$2 per bag charge for curbside check-in, they explain, is simply a way of charging willing passengers for premium service without having to raise prices for everyone else. But the airlines' internal documents put the lie to that explanation. In the case of American Airlines, for example, 2005 planning documents used as evidence in the Boston trial showed that the airline would get \$16 million to \$20 million a year in new revenue if it were to roll out a curbside checking fee nationwide, while spending only about \$7 million on porters' wages. All the rest would be pure profit.

As for the Boston porters, they soon discovered that customers think the mandatory \$2 fee is a tip or that they know it isn't but are unwilling to pay a tip on top of the fee. The porters testified that their daily tips typically fell from \$200 to no more than \$80.

This is not just another story of the incredible stupidity of airline executives and their willingness to sacrifice long-term customers' satisfaction and loyalty to short-term financial pressures. It is also a story of rank hypocrisy. It is these same airline executives who are constantly defending their own generous pay packages -- and those of other corporate executives -- by arguing that you can't retain and motivate key executives if they don't have the carrot of bonus pay dangled in front of their noses at all times.

That's certainly the approach being taken by [Washington Mutual](#), the country's largest thrift, which was to the no-money-down, no-documentation mortgage loan what Drexel Burnham Lambert was to the junk bond. Now WaMu, as it is called, expects to write off \$12 billion in bad loans when all is said and done. Its stock price has declined 70 percent over the past year.

Given those dismal results, it seemed only fitting that [chief executive Kerry Killinger](#) decided to forgo taking the \$1.2 million bonus that he was entitled to under the company's executive compensation plan last year, settling for a measly \$5.3 million in cash and stock. Other executives typically saw their bonuses cut in half.

Next year, however, things will be different. According to the company's recent proxy statement, WaMu's board of directors has decided that the bonuses for Killinger and 3,000 other top executives will be based not on net income, as is customary, but operating income, along with cost containment, fee income and customer loyalty -- all criteria that just happen to ignore the disastrous loans of the past. The board's rationale is that the point of the bonus program is to keep executives focused on improving the company's performance going forward. Or to put it another way: There's nothing we can do now about their past screw-ups, but the important thing is always to keep the carrot dangling in front of those donkeys up in corporate.

These two stories -- the one about the airline porters and the other about the WaMu executive bonus plan -- provide a window into the hypocrisy that permeates corporate thinking about incentive pay. The twisted logic goes something like this:

When times are tough, it's okay to rob the tip jar of front-line employees to make sure that there's still plenty of change in the tip jar of millionaire executives.