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Making the Case for Unequal Pay and Perks

Treating top performers the same as weaker ones is "strategic suicide," say backers of a compensation revolution

By Michelle Conlin

A cabal of HR renegades is taking advantage of the economic downturn to push an unorthodox notion: that the current vogue of slashing perks and pay is managerial insanity. Officeland may be burning, but Richard W. Beatty, who teaches human resources strategy at Rutgers University, says the tendency to treat everyone the same is "misguided and absolutely the wrong approach. It's strategic suicide."

Beatty and like-minded thinkers argue that the prevailing attitude is equivalent to an airline sticking its platinum passengers in coach with scratchy blankets and shrink-wrapped food. Once the good times reappear, or so the argument goes, disenchanted top players will bolt for better treatment and more pay. Companies that hew to the status quo will "pay dearly," says Beatty, who, with Brian Becker and Mark Huselid, co-authored the upcoming *The Differentiated Workforce* and consults for Sony, GlaxoSmithKline (GSK), Lockheed Martin, and others.

The Beatty approach has attracted a growing number of adherents. HR czars at companies as varied as Sony (LMT) and metal manufacturer Precision Castparts (PCP) are engaging in nothing less than a compensation revolution: steerage treatment for mediocre players—and business-class benefits for superstars. At these organizations, HR departments are morphing into what amounts to a concierge service dedicated to the care and feeding of the people whose positions and performance are making their companies the most money.

HR types tend to believe in an egalitarian approach, so the idea that people in the same position would be treated differently is counterintuitive. Traditionalists also argue that one-size-fits-all cuts help prevent layoffs and protect companies from being understaffed when the economy rebounds. The credo could be summed up as: Everybody is in this together. "There are a lot of HR people who don't think [preferential treatment] is right, who think it's really unfair," says Beatty. "They want to save everybody and be the St. Bernards."

Not Craig E. Schneier. The HR boss at pharma giant Biogen Idec (BIIB) is more like a terrier. Schneier is maniacal about fine-tuning Biogen's employee measurement and performance appraisal systems. "A lot of companies talk about this," says Schneier. "But if you look at their

outcomes in regard to pay, you will see they don't necessarily differentiate at the end of the day." Sure, there's a percentage or two difference in the raise or bonus. But most employees in similar positions languish in the same pay bands and are shuttled off to the same conferences as the slackers and sub-stellar.

Schneier doesn't believe all people—or positions—are equal. At Biotec Idec, it's common for one vice-president to get double what the guy in the next office doing a similar job gets. "Twice as big a merit increase, twice as big a bonus, and twice as big an equity grant," says Schneier. Performance metrics at Biogen are so exacting that employees essentially must re-earn their standard of living every year.

MICROMEASURING PERFORMANCE

In this new world, thicker paychecks come with training and development par excellence, more lunches with top leaders, and personal attention lavished on the A player's every whim. Where there are two classes of workers, even the office events can be different. The American Heart Assn., for example, has swankier events for über-achievers. Last year the Association took 13 of them to the World Business Forum in New York City.

How does one pay for rewards for top performers at a time when budgets are under siege? Beatty and Huselid say they have clients who are starting to stealthily freeze or cut pay for some so as to be able to reward others. "They are robbing Peter to pay Paul," Beatty says. "Look, there are an awful lot of long-term employees who are poor performers who have locked-in high salaries through cost-of-living increases."

Companies are getting better at deploying their techno-brawn to monitor, measure, and analyze their workforces—from those who placed which call that landed what deal to those who are infamous for talking up their work only to underdeliver. These granular measures of performance are making it far easier to tailor rewards, doling out different deals to different employees. This will lead to a more Darwinian workplace.

Federal rules currently prohibit companies from sculpting benefits like health care, 401(k) matches, or maternity leaves to fit individuals. The regulations enforce one-size-fits-all and prevent a cafeteria-style approach. But experts believe the rules will get a performance-era update within five years. You can already hear HR luminaries like Microsoft's (MSFT) Lisa Brummel and IBM's (IBM) Randall MacDonald fantasize about it: customizing benefits and compensation to life stages, performance levels, and work styles. The day may not be far off when the childless Gen Yer will be able to pick more vacation over adoption benefits or the graying boomer will be able to opt out of tuition assistance in favor of better elder care. As MacDonald says: "Why can't I make my 401(k) performance-based?"

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Conlin is the editor of the Working Life Dept. at *BusinessWeek*.