

Dissension in the ranks essay



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First Nordstrom should NOT pre-empt “ 60 Minutes” by changing their sales-force compensation practices,. At this point, the various complaints against Nordstrom were well publicized. However, it was mostly a few current and former employees who were complaining, while most employees were not dissatisfied and their customers were very happy with the service they were receiving. The sales-force compensation practices at Nordstrom had been used for over 20 years without previous complaints, so what caused the current problems and how can Nordstrom explain this to “ 60 Minutes” and the “ 60 Minutes” audience.

Does incentive pay work? According to BSZ (page 432) critics of incentive pay rely on two arguments. The first is that money does not motivate employees. The second, and more prominent criticism is that it is difficult (if not impossible) to design an effective incentive compensation plan. Overall, incentive plans have survived for a long period of time in the marketplace and this suggests that the ultimate benefits outweigh the cost. Incentive problems exist because of conflicts of interest between employers and employees.

In the case of Nordstrom’s, its management philosophy is to allow local Managers to apply specific knowledge to operate stores. Nordstrom’s philosophy allows local Managers to buy product and stock stores based upon the trend within a certain area in an effort to extract higher profits by differentiating product lines versus offering standard lines that would appeal to broad markets. These local Managers are said to “ run the store as it was their own business. With Nordstrom’s explosive growth rate, from 5, 000 to over 30, 000 employees within an extremely short duration of time,

Executive Management did not have visibility into the day-to-day operations as it once had when stores were only localized to the Seattle area. Although the intentions of the incentive plan in question were good, in fact it allowed Nordstrom's salespeople to earn the highest wages in the industry, growth, decentralization and reduced Executive Management visibility made it extremely costly for management to observe employee actions at all levels to ensure integrity.

In the case of a typical Nordstrom's salesperson and the Principal-Agent Employee's Effort Problem some store employees had to exert more effort (customer house runs, dry cleaning, etc.) that the extra income was not sufficient enough to compensate for the extra disutility the salesperson experienced from exerting more effort although on-the-clock time would result in more initial pay, it would dissipate overtime as better hours were allocated to those who performed work at no cost and extracted a higher sales per hour due to the manipulation of total hours.

Executive Management should admit that they have not continued to watch the implementation of the system they successfully introduced so many years ago. In addition, Executive Management should promise to study and then modify the sales-force management practices to more closely match the current size of the company. These changes will actively encourage the sales-force to continue providing the " industry leading" customer service they have provided, monitor very closely that none of the sales-force works any uncompensated hours, and implement both sales and non-sales time for clocking-in.

Furthermore, Executive Management will provide additional training for local managers in order that they enforce these new sales-force management practices, instead of encouraging work off-the-clock as they have mistakenly done in the past. As a result of the various court cases against Nordstrom, they were required to pay certain current and former employees additional compensation for the alleged uncompensated hours they felt coerced to work.

In addition the court threw out four of the five claimants in the Class Action lawsuit against Nordstrom, admonished the Union to cease and desist from encouraging Union member employees work uncompensated hours in order to improve the Union's case against Nordstrom, and shortly after the case was settled the Nordstrom employees had the Union decertified and Nordstrom was no longer a union shop! This is a radical illustration of how rapid company growth, decentralized management, and unrelenting pressure to perform can distort performance measurement systems and lead to undesirable consequences.