

Puente hills

Sociology, Empowerment



Puente Hills Toyota (PHT) is a large Toyota dealership which is owned by the corporation Hitchcock Automotive Services. PHT is situated in city of industry, California, about 25 miles east of Los Angeles. PHT offers a wide variety of new and used cars (this is unique in the industry). Furthermore they offer Toyota incentives, service specials, and Toyota parts savings. The annual profits of PHT totaled about \$1. 8, with annual sales of \$ 85 million. PHT had a total of 145 employees. The employees are very valuable to PHT due they are the ones who have to advise the customer, sell the vehicles and repair them.

But it is hard to keep them al motivated. As said by Howard Hakes; " It's people who give us our biggest successes as well as our biggest challenges". The most important is to get all the employees in the same direction, to reach the companiesgoals. For PHT there are two important things, that both the manufacturers and the customers are happy. PHT is divided in five departments, who are reporting directly to the dealership manager, namely: a sales department, and service department, a body shop department, a parts department and aFinanceand Insurance department.

The departments are managed as profit centers. Within this profit centers there are different performance measurement and incentive systems. First the performance measures and incentive systems that apply to all the departments will be discussed. Than the Sales and Service department will be discussed separately. All the bonus plans within the sales department start from one. At PHT, most employees' variable incentive pay increases linearly with performance, however performance is defined; that is, the higher the performance, the larger the bonuses that are paid.

In most large companies, however, particularly at managerial levels, no bonuses are paid until a minimum level of performance, such as a budget goal, is exceeded. An advantage hereof is that managers will not so fast engage in earnings management; 'save sales' for a future period to reach their targets. Or 'take a bath', they make results (look worse) in bad times to get an advance on better results in the subsequent period (Merchant & Van de Stede, 2007 p. 187).

An disadvantage for PHT could be that an manager could be satisfied with an certain amount of bonus and will not work as hard as he did before anymore, due there isn't a real target. Goal-setting doesn't seem so important for PHT. But also goal setting can have negative impacts. An example is that the pressure for the managers and employees can be too high. p. 30 In short, we think it is a good way to motivate the employees, because the managers will not 'take a bath' or 'save sales'.

At the other hand we think that employees always want to increase their bonus because they are self interested so they will be motivated. The other performance measures are CSI and ESI, but it's vague how this performance measure are used. They could be used in a positive sense, to provide "discretionary" bonuses or in a negative sense to limit the amount of the bonus. We think this has to change because of two reasons, first of all it is not clear how it influences the bonus of the employees. Secondly, there isn't a group reward within PHT.

By making the CSI an collective measure system a few things improve. The most important is the communication of expectations and mutual monitoring (social control). Evidence suggest that group rewards can have a positive

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effects on motivation and performance (Mercheant p. 89). Thus they should adapt the survey that customers have to fill in that the final result is an mark. If the average of the marks given by the customers is 7 or higher, the bonus of all the employees who have contact with customers and the managers who are responsible for these employees will increase.

If it is lower than 7 the bonus will decrease (see figure 1 for an example). In this manner group awards could be achieved. Employees will correct and support each other to serve the customer in the best way possible because it could increase or decrease their bonus. At this moment some of the salesman are fraudulent with the customer surveys. For this reason the survey should be done by an independent company. This doesn't only give the management more useful management information, but provides them also with a good performance measure.

Thereby could this independent company also randomly pick some customers who are willing to make a second survey. This survey is focused on the as we call it 'aftercare'. In this way the follow-up actions of the salesman and the service advisors can be monitored

CSI Rating	Change in bonus
1	-11 %
2	-9 %
3	-7 %
4	-5 %
5	-3 %
6	-1 %
7	+1 %
8	+3 %
9	+5 %
10	+7 %

Sales department In the sales department it is all about one thing, sales of vehicles. For the employees of this department two things are important, profit made on a sold car and customer satisfaction (already described).

We can make a distinction between five different bonus plans. First the Salesmen and the assistant sales manager they earn respectively 20% and 7% of the gross profit of every deal. It is good that this measure focus on

gross profit and not on how many cars sold. Due this reason there is no behavioral displacement, there are no side effects that will deliver extra indirect costs. When they for example should give a fixed bonus for each car sold, sales man will do everything to sell a vehicle and lower the prices in the bargaining process as far as possible.

Now the salesmen and the assistant sales manager are motivated to sell as many cars as possible but with a good margin. Secondly the desk sales managers en de general sales manager and the vehicle sales manager get a bonus based on a percentage of departmental profit after overhead expenses before tax. The general sales manager gets a bonus of 2, 5%, the sales desk manager gets a bonus of 1, 2-1, 5% and the used vehicle sales manager gets 5% but this is only from the used vehicle department. It is good that the bonus is based on the departmental profit after overhead expenses.

Because in this manner you create an entrepreneurial way of thinking. The better you do your job, the higher your income will be. This for example can also reduce 'on the job consumption' because, if the expenses are high net income will be lower and this will influence the bonus of the managers. In our opinion it is good that managers get an entrepreneurial way of thinking. They should have the idea that they own the company a little bit. Service departement: Service technicians salary are based upon flag hour. Flag hours are standards set by the manufacturer to complete a specific task' They receive \$ 10-23 per 'flag hour'. Average Technicians at PHT need about 45 minutes to do one flag hour of work, but the top technicians could it do much quicker As said in the case service technicians are paid but the job and

so they incentives to 'cut corners'. By completing the task in less minutes then is set standard they receive more salary. Control mechanism:

1. If time spent on the task was very low, the technicians must explain the divergence
2. Monitoring the number of re-checks.

Re-checks occur when problems are not fixed right the first time (1% re-check is considered as good) We would recommend no changes in the incentive system for the service technicians. There are incentives for the service technicians to cut corners but this controlled by the PHT management. For example the current re-check percentage of PHT (0.006%) is far below the 1% that is considered as good in the industry. We agree with the statement of Hakes that this percentage must be significant higher if the service technicians actual are cutting corners.

Service Advisors Service advisors at PHT receive a fixed salary of approximately \$ 2000 per month. In addition they receive the following bonus: * 8% commission customer paid labor * 6% commission manufacturer paid labor (under warranty) * 6% commission part paid on labor internally at PHT So the bonus he could receive are paid on commission, so their earnings are depending on their sale skills. This typically used method for automotive service advisors. We think there a disadvantage of this system that is based on turnover: advisors could also receive bonuses even if the department are not making profits. Bonuses' that rely on profit don't have this problem. The service manager: The service manager receives a fixed salary of \$ 3000 per month and in addition a bonus based on a percentage of the service department gross profit (before overhead expenses). If he gross profit is

above the \$ 195. 000 the service manager receives a percentage of 4% and if the gross profit was 195. 00 or lower the manager receives a percentage of 3. 75%.

We recommend no changes here All interdepartmental transfers were done at market prices. So if the department used vehicles are served in the PHT shop, the sales department paid full retail price for parts and labor. They could give a discount to the sales department or transfer it at cost. In this way you shift profits from the one department to another department. Because each department in PHT is managed as profit centre we think you shouldn't change the policy of market prices In the whole company incentive pay is used. In our opinion pay for performance plans can be truly effort inducing. 1) Individuals tend to improve their work performance when a strong performance pay linkage exist (2) incentives can help make employee behavior consistent with the organizations goals (3) Assessing the performance of each employee individually helps the firm achieve individual equity (otherwise they may leave or reduce effort). Of course there are also some disadvantages of pay for performance plans; for example, Employees may be tempted to do only what they get paid for, ignoring those intangible aspects of the job that are not explicitly rewarded.

Cooperation and teamwork may be damaged if individual merit pay is too strongly emphasized. Individual merit systems assume that the employee is in control of the primary factors affecting his or her work output, an assumption that may not be true. In the (Narotama, 2000?? , p. 257-286) HOE verwijzen??. In the case of Puente Hill none of these problems are discussed and the overall performance of Puente Hill is quite well. Therefore

we tend to conclude that the pay for performance plan at Puente Hill are quite effective. Conclusion We have a few recommendations for PHT introducing CSI as performance easurement in order to (maybe) improve communication, motivation and performance. Second, introducing more subjectivity in performance measure. And third, the bonus plan of the service advisor can be changed from turn-over based to profit based so there will not be a bonus if the department has no profit. Further we would recommend more non-financial performances measure. In could be useful to introduce more subjectivity. In some cases employees have no influence on the profit or revenues (crisis) although they are judged on this measures and so going backwards on salary.

For example by introducing a committee that keeps track of these sort situations this can be prevented. Bonuses are paid on monthly basis. So employees are aware whether they perform well or not and so have motivation to improve their tasks or continue their current tasks. Bonuses at PHT are based upon measures that mostly can be influenced by the employees (positive) in cases they can't influence, we proposed a committee that can judge of the situation occurs. Altogether we think the current measurement and incentive system is quite alright. Evidence therefore is that PHT had won many awards for excellent performance.

Prentice Hall (Third Edition), expect to be rewarded for their personal accomplishments and contributions. Unfortunately, the more closely pay is tied to particular performance indicators, the more employees tend to focus on those indicators and neglect other important job components that are more difficult to measure. By creating pressure to produce and to “ keep

score,” incentives may induce employees to engage in undesirable behaviors, to cut corners, deceive, misinform, hide negative information, take more credit than they deserve, and the like

For instance, employees may withhold information from a colleague if they believe that it will help the other person get ahead. Those who are receiving less than they feel they deserve may try to “ get back” at those who are receiving more, perhaps by sabotaging a project or spreading rumors. Internal competition may set off rivalries that lead to quality problems or even cheating. If employees do not consider the system legitimate and acceptable, it may have negative rather than positive effects on their behavior.

A big part of the problem is that, to defend their egos, employees who receive lower performance-related payments than others tend to blame management rather than themselves. Unless an effective performance appraisal and feedback system is in place (see Chapter 7), incentive programs are unlikely to produce the expected results. Pay-for-performance systems may lead to greater productivity but lower job satisfaction. ²⁰ Some research suggests that the more pay is tied to performance, the more the work unit begins to unravel and the more unhappy employees become.

Pay-for-performance programs may push employees to the point of doing whatever it takes to get the promised monetary reward and in the process stifle their talents and creativity. Thus, an organization that puts too much emphasis on pay in attempting to influence behaviors may reduce employees’ intrinsic drives

nog gevonden op internet: Regarding performance measurement: The departments are profit centers, but not all

costs are allocated to them. They are more like “ gross profit centers. ” The salespeople are held accountable for gross profit on the deals they initiate, so each salesperson is also a little profit center.

The service advisors are paid on commission, so each advisor is a revenue center. The service technicians, though, are paid for work accomplished. It is useful to discuss why some seemingly uncontrollable indirect costs are allocated to departments (see Exhibit 3). These allocations are mandated by Toyota, so that they can compare dealership departments on a common basis that treats each department more or less as a standalone business. Allocating the costs also gives the department managers information as to what services are...

References

1. Merchant, K. A. and Van der Stede W. A. (2012). Management Control Systems.