Las ferreterias de mexico essay

ASSIGN BUSTER

Introduction To find out whether or not Mr. Gonzales should implement the new compensation plan, we will initiate with a valuation of the proposed bonus plan that he is considering. This evaluation will include an analysis of the key decisions and the persons responsible for making the decision as well as a discussion of the proposed plan.

Upon this analysis we will conclude whether it is a good idea to implement it and state our suggestions for a modification of the plan. Valuation of the proposed bonus planIncluded in the new bonus plan are the store managers (SM), the regional managers (RM), and the corporate staff managers (CM). Not included are the CEO (Mr. Gonzalez) and the COO; their bonuses would be decided by the compensation committee of the board of directors. Furthermore all other employees not included in the plan would continue as before with a bonus in the range of 2%-5% of base salary.

Each of the company's 82 stores is operated by a SM, who has a lot of autonomy. The 82 store are organized into 9 geographical regions. The RMs are responsible for providing oversight and advice to the SMs, whom had little formal education. On the top of these two manager levels are the CMs, who are responsible for a range of centralized functions including purchasing, human resources, marketing, real estate, and investor relations. The proposed bonus plan consists of 4 million pesos plus 8 percent of the corporate income before bonuses and taxes in excess of 120 million pesos. The total bonus pool will be divided between the managers as following: SMs – 70%, RMs – 15%, and CMs – 15%.

This year, the bonus pool will amount to 8, 498, 400 million pesos (all calculations: cf. the calculations for the Whiz Kids questions on the last page), meaning that the bonus pool will be divided by the different manager levels as following: •Store Managers5, 948, 880. 00 million pesos •Regional Managers1, 274, 760. 00 million pesos •Corporate Staff Managers1, 274, 760.

00 million pesos The SMs' bonus pool will be divided among the store managers based in their relative proportion of bonus units earned. The maximum number of bonus units are 6, with a lower cutoff level at 5% ROI and a upper cutoff level at 11%ROI. These cutoffs stipulate an acceptable minimum performance, while restricting superior performance. Denying bonuses for exceptionally good efforts can be justified by the fact that the performance results can be good luck. Moreover it, to a certain degree, ensures that the managers will not be myopic, which again ensures that the company will show a more steady performance improvement over time.

Another reason for the upper cutoff level on the incentive payments might be a desire of not paying lower-level mangers more than upper level managers. In this case, a SM gets 72, 547. 32 pesos in average, RMs get 141, 640. 00 pesos, and CMs get 254, 952. 00 pesos. A top-performing SM cannot earn more than 118, 189.

68 pesos in bonus. This is less than the CM's bonus, so in this case the upper cutoff definitely ensures that the lower-level managers cannot earn more than the upper-level managers. The bonus pools will be assigned to managers based on their entity's ROI, given by following formula: ROI =

(bonus eligible revenues – expenses) / total store investments. Using ROI as the central measurement of performance causes some problems: •Accounting profit does not reflect the total value of the company and is therefore not a completely fair method •Management myopia: a ROI-focus stimulate shortsightedness, and can undermine long-term focus, which may not be in the interest of the corporation •Suboptimization – it may not be in the interest of the enterprise that individual regions will focus solely on the success of themselves rather than on the overall success of the company •Regional differences in e.

. investment prices, local expenses etc. All bonuses will be paid in cash as soon as financial statements have been prepared. Beside the problems of using ROI as the central measurement element we see following problems with the new incentive plan: •Not all people are motivated by cash payment. Furthermore, cash bonuses can generate durability issues, i. e.

eople spent the money right away and quickly forgets the joy of having performed well •The reward is not timely, as it is not necessarily given upon successes, but when the financial statement has been prepared which in the end of the day may reduce the motivational effect •The geographical location also has an important role in determining the success of the different stores; some stores have more favorable locations than other, and therefore enjoy higher bonuses An issue is also whether or not all stores should have the same performance standards. On one hand, motivational incentives are highly individual, and preferences may vary greatly across the regions. Tailoring reward packages to the individual employee’s preferences will undoubtedly have the highest motivational effect, but will not keep the incentive system at the lowest possible cost. It is difficult to implement such a tailored plan due to the vast scope of the project: it will require a huge amount of analysis and date to map down differences. So even though the motivational effect might be higher for an individual tailored incentive program, a single strategy with common performance standards for all stores may be much easier and cost-efficient to implement. The new bonuses are greater than before, and should therefore stipulate improved operating efficiencies.

Since ROI is the central element in calculating the bonuses, there is a risk of suboptimization, but since the bonus is partially determined through the corporate profit, the managers should also be concerned with the overall operating efficiency of the company. Ultimately an improvement within operating efficiency should lead to an increase in market shares. By tieing the rewards of the employees to the overall performance of the company, it would inevitably commit them – given that the employees have sufficient possibilities for influencing the results. In this case, the managers have a lot of responsibility and have many channels by which they can control and influence the results. Nevertheless, basing the bonuses partly on a group effort enforce cultural controls, as the employees are more alert of what their colleagues are doing, hence controlling whether they are working efficiently enough; “ get to work; you’re hurting my profit sharing”. In this way, it makes good sense to base the bonuses on a proportion of corporate profit.

Proposals for modification of the compensation plan The SMs have a lot of responsibility which is not corresponding to their level of education and their level of bonus. Compared to the RMs and CMs, who are better educated and have more experience, however, the bonus levels are fair. Thus it will be difficult to justify a higher bonus-level for the SMs, based on their current educational level. A possible solution will be to make a compulsory training program in finance and management.

When the SMs have passed the courses, they will be qualified to receive a larger bonus. The training program will be an overall gain for the whole enterprise, since they will have more competent employees. So even though this extension does not make the incentive plan cheaper, it will be a gain for the company in the long run. Moreover, the further-training program will be personally satisfying for the managers.

Another solution to what we see as the too-much responsibility-compared-to-bonus-problem, would be to enhance the upper cutoff level. Since Mr. Gonzales is concerned about the increased compensation expenses he should consider to lower the bonus pool and implement some non-monetary rewards, as they are often more motivating and durable. An example could be to recognize and communicate particular good performance throughout the company.

An alternative idea to pay cash directly could be to reward the managers by some sort of stock option. This would further commit the managers to the company, and would probably be motivating since they have sufficient authority to influence the actual performance of the company. To find a solution for the personnel not included in the plan, i. e. store employees and regional sales and corporate purchasing staff, we suggest modifying the current discretionary bonus awards.

Instead of Gonzales being responsible for giving these rewards, we suggest that this authority is delegated to the store managers and regional managers, respectively. These managers are in daily contact with the " neglected" employees, and it therefore seems more fair that they delegate the rewards. In this way the bonus system will be more motivating for the personnel. Whiz Kids Competition Number of managers% of bonus pool Store Managers: 8270% Regional Managers: 915% Corporate Managers: 515% Bonus Pool 4. 000. 000+(8% of corporate income before taxes and bonuses in excess of 120000000) 4.

000. 000+(0, 08*(176. 230. 000-120. 000.

000)) 8. 498. 400 The bonus pool is then divided between the different groups: Store Managers: 70%*8. 498.

400= 5. 948. 880, 00 Regional Managers: 15%*8. 98.

400= 1. 274. 760, 00 Corporate Managers: 15%*8. 498.

400= 1. 274. 760, 00 To find the average amount per manager we divide the pools by the number of managers in the specific group Store Managers: 5. 948. 880/82= 72. 547, 32 Regional Managers: 1.

274. 760/9= 141. 640, 00 Corporate Managers: 1. 274. 760/5= 254. 952, 00 The bonus pool for the top performing store managers: Total units in the

bonus plan 6*1+9*2+11*3+20*4+15*5+8*6+4*6+3*6= 302, 00 Average pay per unit: 5.

948. 880/302= 19. 698, 28 Store top performing managers (6 units)= 118, 189, 68