

Nordstrom



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Nordstrom's decentralized structure, financial controls and compensation policies have served to create one of the most productive workforces in the retail industry. Ironically, the same elements that enabled Nordstrom's success are responsible for its current misfortune. The decentralized structure of Nordstrom has compromised top management's ability to control local managers' implementation of sales force management systems. This compromise of oversight, in tandem with the corporation's employment of a controversial sales per hour (SPH) compensation policy, has had damaging results.

The corporation's twenty-year streak of significant earnings growth came to an end in the fiscal year 1989 and the first half of the year 1990 is proving to be a public relations nightmare (Westin, 1999, p. 8). While some of the financial losses can be attributed to a slowing economy, others are directly related to retroactive wage payments (\$0.11 EPS loss for 1989) and reputational damage resulting from negative publicity (Nordstrom Annual Report, 1990, p. 4). This paper will serve to rectify the latter issues, which are within Nordstrom's control.

The retroactive wage payments and negative publicity stem from issues related to: lack of intra-corporate regulatory oversight, inconsistent culture/policy communication and employee manipulation of a cumbersome compensation system. The solutions provided are specifically aimed at improving earnings growth and stock value while repairing Nordstrom's reputation. OPPORTUNITY OVERVIEW In order to restore Nordstrom's earnings growth and internal and external reputation, a number of opportunities have been considered for this study: 1.

Revamp Corporate Culture and Implement Compliance Measures – establish a corporate culture that emphasizes achieving results the right way; mitigate compliance weaknesses associated with decentralization 2. Modify Controls – shift from a sole reliance on financial controls by incorporating several strategic operating controls that emphasize teamwork; reward mitigation of macro-economic effects 3. Overhaul SPH Compensation Policy – institute a less cumbersome method of determining sales commission and performance 4.

Implement a Public Relations Campaign – highlight efforts being made to rectify issues at hand, settle legitimate litigation claims promptly, reestablish image to employees and stockholders All of these opportunities, when exploited properly, will help reestablish Nordstrom as the corporation most admired for its people, productivity and profits (Chevron Corporation, 2009). This study will incorporate the two most influential opportunities to improve Nordstrom’s current standing: revamping corporate culture and implementing compliance and overhauling the SPH compensation policy.

ANALYSIS Management Model

Over the past year and a half, it has become increasingly clear that there are serious problems with Nordstrom’s management model and systems. These problems are most evident through employees’ lack of proper recording of time worked. This major gap in labor law compliance demonstrates that Nordstrom’s management model does not contain a functioning system of checks and balances. Furthermore, the decentralized structure of Nordstrom’s management, combined with the current culture of “ whatever

it takes” to meet or exceed financial targets, has led empowered local managers to condone numerous illegal labor practices.

Top management can no longer afford to circumvent claims of labor law violations by labeling the accusations as isolated incidents (Westin, 1999, p. 2). The fact that the Washington State Department of Labor has found numerous labor law violations in the state where the company is headquartered demonstrates the lack of oversight by Nordstrom’s executives. When executives fail to address such serious problems in their organization, as is presently the case with Nordstrom, an otherwise successful company can quickly spiral into bankruptcy.

The findings of the Washington State Department of Labor affirm that the time is now for Nordstrom to create a vision and strategy that compliments strict compliance with the law. This new vision and strategy on compliance must be a part of the everyday culture and values of Nordstrom. It should be reinforced at all levels of staff, especially through compensation methods. Compensation The SPH compensation model is overly complex and relies heavily on interpretation when awarding employees their pay and future work hours.

The categorization of “ selling” versus “ non-selling” activities serves as the crux of the compensation model and promotes the behavior of improper time keeping. For example, a memo sent out to staff in August 1989 describes “ Personal Touch” department seminars and activities as part of the “ selling” process (Westin, 1999, p. 16). Employees are aware that by logging time for

such an activity, they will reduce their SPH and put themselves at risk for less productive work hours and possible termination.

Many activities such as seminars are placed under the “ selling” category in order to discourage employees from booking activities as work hours. By intertwining such an interpretative mode of compensation with an aggressive culture of meeting financial controls, Nordstrom has set its system up for abuse. The abuse has indeed occurred. The SPH model provides much of the tangible foundation for the filing of class action lawsuits against Nordstrom. New lawsuits are surfacing by the day and the monetary and reputational damage the company could sustain is severe.

Nordstrom needs to overhaul its compensation system immediately and create a system that allows little room for interpretation.

RECOMMENDATIONS Revamp Corporate Culture and Implement Compliance Measures No matter how fortified from abuse a company’s compensation model may be, it is the corporate culture and strategic message communicated by management that will dictate how employees behave. Nordstrom can truly sustain its competitive advantage achieved through customer service by creating a culture that celebrates its employees and emphasizes that the company must achieve results the right way.

This strategic message should be captured in a living document known as “ The Nordstrom Way. ” The Nordstrom Way is a simple charter that outlines the vision and values of the corporation that it believes critical to achieve success. The charter summarizes how all employees in the organization are expected to behave in order to yield the best results for customers,

employees and shareholders (Chevron Corporation, 1999). This charter will be communicated to employees on the first day they enter the company, and it will be consistently touted in all major company communications and gatherings.

This type of charter has been successfully implemented in many corporations, including the international energy giant, Chevron. An excerpt from The Chevron Way highlights the message regarding company values (see exhibit 1): “ Our company’s foundation is built on our values, which distinguish us and guide our actions. We conduct our business in a socially responsible and ethical manner. We respect the law, support universal human rights, protect the environment, and benefit the communities where we work. ” Central to The Nordstrom Way will be a new emphasis on compliance in the organization.

For every regional manager, there must be a compliance officer in place that receives a non-commission based salary and has no interest in the corporation other than to ensure all parts of the company are operating in compliance with the law. At the executive level, an executive compliance officer will advise the Nordstrom team, through set status reports, about what the regional compliance officers are seeing on the ground. In addition, ombudsman and anonymous help lines must also be setup to ensure employees can communicate any problem related to compliance without fear of retribution.

Overhaul SPH Compensation Policy Nordstrom should overhaul the SPH model and move towards what many in retail call a “ straight commission”

model. The “ selling” versus “ non-selling” concept that significantly impacts the ratio based metric of SPH should be eliminated. The system should work through what is known as a “ draw” concept. Workers should be paid a base hourly wage and be required to exceed monthly goals in sales in order to earn a commission check. For example, a starting employee could earn a base pay salary of \$7/hour for 40 hours of work time per month.

That employee would have an assigned draw of \$4, 150 in sales per week (the amount of the draw could be adjusted for sales ability and consideration of a store’s most productive hours.) By this model, the employee earns \$280 per week in base pay, regardless of their sales. If that employee’s sales exceed \$4, 150 for that week (or \$16, 600 for that month), he or she will be permitted to keep the amount over \$4, 150 as commission pay. The draw amount for the employee is based on the sales required of which 6. 5% commission will yield the base pay. Therefore, 6. 75% of \$4, 150 in sales per week is approximately equal to \$280 per week. In the event that the employee does not meet their draw, they will then have to make up for that differential in the next month. If management deems the employee cannot meet his or her draw for performance reasons, that employee could be subject to termination. If the employee consistently exceeds the set draw amount, he or she would be eligible for a higher base pay and responsible for an ultimately higher draw.

Regarding overtime pay, the employee will still receive regular time and one half of base pay for all hours worked overtime with the same commission system in place regarding draw (Berthelot, personal communication, October 30, 2009). Employees that work on the draw commission system will be

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responsible to use their time appropriately and equitably within the store to ensure inventory and other recommended duties (thank you notes, hand carries, etc.) are carried out.

It is essential that a clear understanding exist between the sales force, managers and compliance officers outlining that any work done outside of the 40 hours a week must be clearly documented and categorized as overtime. Nordstrom should also hire non-commission based employees, those that are only paid an hourly wage or salary, to manage inventory and other non-sales related items. The hours before and after the store closes should allow for commission-based staff to help with the non-sales tasks. By using this type of compensation model, employees will have little incentive to work off the clock.

Employees are not judged by the sales per hour ratio, but by their ability to sell merchandise.

JUSTIFICATIONS

- Revamp Corporate Culture and Implement Compliance Measures
- * Refocuses the vision and values of the corporation to revolve around achieving results the right way; Ensures a consistent message is communicated to all employees regarding company culture and compliance
- * Empowers Nordstrom's executives with the information needed to monitor and rectify compliance issues in a timely fashion; reduces probability of new lawsuits
- * Maintains the power of Nordstrom's decentralized structure (direct buying power etc. while providing oversight of management systems
- * Demonstrates to stockholders, analysts, and disgruntled employees that the corporation is taking corrective action

Straight Commission Model

- * Eliminates incentives to improperly record

hours worked * Compliments Nordstrom's existing workforce demographic
(young, motivated)