

Green Design Group, LLC: Compensation

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Green Design Group is a full service business that provides customers with apparel marketing programs, apparel design, and imports of high quality apparel products (Business Resource Software, Inc., 2011). The focus of the company is on active sportswear. This is a small company with the owner as the acting manager of daily operations, a director of production, a strategic investor who is also an advisor, and a director of sales. There are two office employees with space for three more in the future. The office is small due to the nature of the consulting business as the consultations are done at the client's place of business. Green Design Group will be hiring sales personnel and additional staff members in the near future. As they prepare for this growth, more thought into the compensation packages they offer their employees needs to be looked at. Sales Compensation Program for the sales personnel team along with Short-Term and Long-Term Incentive Plans, and Pay for Time Not Worked Plans are going to be set up for all employees.

Sales Compensation Program

Once the Base Pay Schedule has been established for the sales personnel at Green Design Group, LLC, the sales personnel compensation program will be implemented. The sales personnel compensation program will utilize a combination plan. This popular approach is a combination of salary and commission that has advantages for the company and the sales personnel (Henderson, 2006). There is security for the employee in the way of a guaranteed "income during periods of economic downturn or depressed demand," and it is also beneficial to the employer in that it provides "more opportunity to direct the efforts of the individual" towards customer service and prospecting (Henderson, 2006, p. 63). Employees will not only work for the paycheck, but they will also want to increase their take home pay by meeting the company's

goals and objectives. Essentially they will choose how much money they will be making, not the employer. To be sure that this plan motivates employees to work towards the company's goals, the company must be sure to not make the plan too complicated or unobtainable for the employees to reach. Green Design Group, LLC's revenues are derived from these sources: (1) consulting fees, (2) royalty payments from designs, and (3) production commissions from manufacturing (Business Resource Software, Inc., 2011). Sales personnel will have a direct impact on all three of these revenue sources. The sales team will be looking for new clients to design apparel which will have a direct effect on the consulting fees, royalty payments from the apparel design, and the commissions made from the apparel being manufactured. The sales team is a key aspect of Green Design Group's revenue sources, and this should be reflected in the salary and commission program.

Short-Term Incentive Program

Along with the sales combination plan, there will also be a short-term incentive program that will reward all employees for securing new client accounts. To be sure that an employer is reinforcing a desired behavior, the reward or bonus should be made in a timely manner shortly after the employee demonstrates the behavior (Henderson, 2006, p. 366). This program will begin as a quarterly payout incentive for the first year to promote the company's objectives in relation to their target customers and revenue sources. By providing the bonus quarterly the employee can see the end of that bonus payout, which will provide more motivation than if it were a yearly payout program. Short term incentives "improve organizational and employee productivity without increasing base pay fixed costs" (Henderson, 2006, p. 346). The new client bonus will reward the employee monetarily, while keeping the fixed costs for the company down and, therefore, provide a bonus for both the employee and the company. The bonuses will be

based on the dollar amount of the new client account, not the number of new clients. This will ensure that the bonus is based on the company's revenue objectives, and the amount of the bonus will be a percentage of the total account amounts that they have secured for the company. For example, if John secures 3 new clients for consulting apparel design (at \$55,000 per season) for the summer season, he will have a total of \$165,000 in new client fees for the company to put towards his bonus at the end of the quarter (Business Resource Software, Inc., 2011). If the management team has decided on a 1.5% bonus, then John will earn a \$2,475 bonus for the quarter.

During the process of reviewing sales personnel for the new client bonus, they will be viewed from four perspectives: (1) individual contribution, (2) member of the team, (3) member of work unit, and (4) member of the organization (Henderson, 2006, pp. 346-347). Employees who work with the team and work unit they are a part of will benefit from the other members and the resources and contacts that this will provide, and, therefore, will be able to better their individual contribution (in the form of client accounts) as well as for the organization. Employees who work together in securing a client will each receive a portion of the account total. As in the example of John from above, one of the client accounts he secured was a group effort with another employee, Sam. John and Sam would both receive an equal portion of the \$55,000 account, which would be \$27,500 each. John would then have a total of \$137,500 ($\$55,000 + \$55,000 + \$27,500$) in new client fees for the company to put towards his bonus at the end of the quarter (Business Resource Software, Inc., 2011). If the bonus was 1.5%, then John will earn a \$2,062.50 bonus for the quarter.

Long-Term Incentive Program

According to Henderson, companies should “develop qualified deferred compensation programs that link the future economic security of all employees to the economic survival and prosperity of the organization” (2006, p. 374). To achieve this, Green Design Group will implement a 401(k) plan that will be available to all employees of the company. This plan would qualify under Section 401 of the Internal Revenue Code which means that favorable tax treatments will be available to both the employee and employer (Henderson, 2006, p. 378). There are two favorable tax treatments that would be applicable to this plan: (1) employer can recognize the deferred payment as an expense in the period it was earned, and (2) the employee does not have to report qualified payments until received (Henderson, 2006, p. 378). This type of plan is beneficial to both parties. The employees payments into the 401(k) plan is not added to their wage base for the year it is granted and will not be part of their taxable income (Henderson, 2006, p. 378). The employer can contribute company stock to the plan of the employees for their matching contribution which will provide tax deductions for the value of the contributed stock (Henderson, 2006, p. 388). This is a great plan that will benefit the employee, and the company will be providing an incentive program that will have significant tax deductions for them as well.

Another option that could be offered to employees would be the addition of a Roth 401(k) plan. The Roth 401(k) is a new concept with the major difference between it and the traditional 401(k) is that the employees contributions are not tax deductible (Smith, 2011). The positive aspect of this type of 401(k) is that none of the withdrawals are taxed; this includes all of the money earned from capital gains, interest, and dividends (Smith, 2011). By being taxed on the money as it is put into the account, the employee saves on the taxes that would be deducted

from the total saved amount at retirement when withdrawals are made. Because the employee would be taxed on the contribution plus the interest, they would pay more in taxes. The money will grow in the account over time and the amount that the account holder is taxed would be more at the point of withdrawal rather than the point of contribution. Contributions are being taxed at a lower rate and the earning will never be taxed, no matter how much the interest may grow over the years (Smith, 2011). For example, if Jenny contributes a total of \$5,000 for the year to a Roth 401(k) plan, the tax would be deducted from this amount at the time of contribution. If Jenny contributes a total of \$25,000 over the time of employment to a traditional 401(k) plan and interest grew this fund to \$100,000 at the time of retirement, then Jenny would be taxed on the \$100,000 instead of on the \$25,000. This makes a Roth 401(k) plan appealing to employees.

Cash or Deferred Arrangement (CODA)-401(k) Plans need to “be offered to a nondiscriminatory group of employees,” so as not to favor the highly compensated employees of the company (Henderson, 2006, p. 387). For Green Design Group to be sure there is no discrimination amongst its employees, the plan will be offered to all employees who are 21 years of age once they have been employed by the company for one year. More employees will utilize the 401(k) plan due to the matching contributions the company will offer (Henderson, 2006, p. 387). To make this incentive appealing to employees, the company will contribute 50 cents on the dollar that the employee contributes with a cap of 5% of the employee’s salary. To illustrate, Sue has earnings of \$1,000 for the pay period, and she contributes 6% of her salary to her 401(k) plan, and the company contributes up to 5%. She would have \$60.00 ($1,000 \times .06$) from her contributions and \$25.00 ($1,000 \times .50 = 500 \times .05 = 25$) from the company’s contributions, for a total 401(k) contribution for the pay period of \$85.00. The amount above the

5% cap is unmatched, but the employee can contribute up to 10% of their salary. By making the Cash or Deferred Arrangement plan attractive for employees, Green Design Group will be creating economic security for their employees.

Pay for Time Not Worked

Finch suggests that offering an enticing Personal Time Off (PTO) package can give a company “a serious leg up on the competition” (2011, p. 16). Due to the fact that many businesses have found sick time to be an abused benefit, many organizations have turned to combining sick leave and vacation days into one plan. This helps to avoid issues of employees using sick time for personal appointments or having to go to work ill because they have used up their sick days (Finch, 2011). By combining the sick and vacation time into one PTO plan, the company will be able to give their employees control over their paid time off, and it will be appealing to more types of employees. Those with small children welcome the extra time to use when a child is ill and unable to attend school; whereas, another employee may never use sick leave and can use more vacation time. There are many considerations that Green Design Group should take into account as this program is set up. Henderson suggests guidelines that should be established for how to count Earned Time (ET) towards PTO at the onset of the program:

1. Overtime is counted toward ET
2. An employee must work 32 hours of regular time in the scheduled work week
3. ET must be scheduled and approved in advance unless due to injury or illness
4. Maximum accumulation is 90 days of ET
5. ET does not count toward overtime
6. Advances on ET may be taken (employees who leave the firm with advanced ET will have the monetary value deducted from final pay)

7. Shift differentials will be used in calculating ET, weekend and holiday differentials will not be calculated

8. Cashing-in up to 50 percent of ET once a year is allowed (Henderson, 2006, p. 452)

Most employees will appreciate the fact that they can personalize their paid time off with their family and personal needs. Pay for time not worked can greatly enhance the quality of work life opportunities for most employees (Henderson, 2006, p. 17).

Having a well rounded compensation program will assist Green Design Group LLC in remaining a competitive place of employment. Motivating pay for the sales personnel helps the company employ people with a “go get it” attitude, who will help the company’s goals as they achieve their own income goals. Ensuring that short-term benefits for the new client bonus is in line with the organizations goals, Green Design Group will be ensuring they have the right people to make their company grow strong into the future. Both the sales combination plan and the new client bonus will help the firm hire employees who have the company’s objectives at the forefront of their daily work. Long-term incentives and pay for time not worked will be added benefits that all employees will place high significance on. Planning for future income at retirement and having the flexibility to use paid time off are benefits that employees look for in compensation packages. Perspective employees not only look at the money they will receive in their pay check, but they look at the entire compensation package and how those benefits provide value to them and their lives.

References

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Assignment Explanation and Requirements

Go to the Center For Business Planning website where you will select one of the business plans to use for this final paper. Begin to formulate ideas for creating a strategic compensation plan for the business you chose. Focus on a minimum of four key compensation areas that are crucial to the success of the business you selected.

Given the nature of the business you selected, discuss the details of a strategic compensation plan to support the creation of long term organizational success. You should use your own creative ideas and material from the text that will integrate into the strategy and mission of the business.