Safelite® Glass Corp.

Broken glass?
We'll fix it **fast**

Schedule online today

Let's get started

The best choice for auto glass repair

Safelite® Glass Corp.

- Columbus, OH
- Founded in 1947
- They repair/replace windshields on demand
- Largest firm in the US market

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- Hourly based wages

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  - hidden action

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- Hourly based wages
  - hidden action
  - misaligned incentives
  - long time, long trips to get on site
  - less than optimal effort
- In the 90's: productivity is largely below than expected

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- Adoption of a different wage determination system: Performance Pay and Productivity.
- Wage as a function of the number of worked windshields.
- Weekly wage **P** thus corresponds to the sum of worked windshields.

PLUS:

- A "threshold", minimum, fixed wage is establishhed. Let this be **H**
- And the following rule is adopted: if $\mathbf{P} < \mathbf{H}$ then $w = \mathbf{H}$

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Thus, if we let w stand for wage, we have:

- $P < H \rightarrow w = H$
- $P > H \rightarrow w = P$

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Key point: head management has set a menu that workers can choose from:

- try to enter the **P** zone: work harder, earn more
- stay in the **H** zone: work less earn less

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Matter of fact, a 44% increase in productivity is observed.

What does this increase stem on?

- A fraction of workers work harder to get to **P**?
- Workers would stick to **H** but they fear being confronted with **P**-workers and thus fear being fired
- Less motivated or fixed-wage-loving workers leave Safelite and they get substituted by more motivated and eager to earn workers.

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As to head management:

- They have to set a piece rate **P**
- They have to set the fixed wage **H**

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- A first group in the head management maintains that **H** should be fixed at a lower level than that in place before the adoption of the piece rate system. Say, 70%
- A second group maintains that there is no need to set a lower **H**

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The first group is right!

- With an unchanged **H**, no worker will ever earn less and the wage bill could only stay constant or even get bigger.

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The second group is right!

- The key point is setting **P**, not **H**!!!

See how it works with an example.

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Let us suppose that:

- Workers were paid \$12 per hour for a 40 hours working week
- We would have a gross pay of $\$12x40h = \$480$ per week.

Let us also suppose that:

- Workers do nothing but fixing windshields
- 10 windshileds per week are worked.

We would have: $ULC = \$48$ per windshield.

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Suppose that:

- Workload for Safelite is 5.000 windshields per week
- Workers, as said, work 10 windshields per week.

Then, Safelite:

- needs to employ 500 workers
- wage bill would equal $500x\$480 = \$240.000$ (plus taxes)

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Suppose now that a PPP wage system is adopted.

- Safelite sets the piecerate at \$30 per worked windshield.

What is going to happen?

- Some workers might decide to work harder to earn more
- Matter of fact: to receive more than \$480 (i.e. the guaranteed wage rate) one has to work at least 16 windshields per weeek (i.e. $16x30 = 480$)

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Suppose now that 100 workers would aim at **P** and work 20 windshields per week.

- They will get $w = \$30x20 = \$600$
- The remaining workers will stick to $w = \$480$ and to 10 windshields per week.

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Point is: of the total 5.000 windshields (i.e. Safelite's workload)

- 2.000 will be worked by the hhard working technicians
- the remaining 3.000 will be left to the "lazier" ones

At 10 windshields per week, Safelite will only need 300 less productive technicians

Let us calculate the wage bill:

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The new wage bill:

$$100x\$600 + 300x\$480 = \$204.000$$

The old wage bill:

$$500x\$480 = \$240.000$$

ULC for the hard workers:

$$\$600/20w.s. = \$30$$

ULC for the lazy workers:

$$\$480/10w.s. = \$48$$

. . . but you now need only 300 of them for a total work force of 400 people.

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- This shows that Safelite could keep the guarantee at 100% of the old wage rate and improve its bottom line.
- So: let employees choose hoow hard to work and have them rewarded the more they make choices that benefit your firm.

Management

- Let other people freely choose what you want them to choose
- Have others maximizing your own utility while they maximize theirs
- Management is first and foremost about getting things done by the effort of others.

Some questions

A medley of questions:

- How would you define “lazy”?

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- How would you define "lazy"?
- Who is better off with "more productivity"?
- Is "reacting to incentives" costly?
- Is "incentivizing" costly?
- Are incentives always worth using?

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- what is “number of worked windshields” a proxy for?
- What else should Safelite do in order to have more workers aiming at **P**?
- What would ever guide you in deciding whether to aim at **P** or not?

Let's move to an Israel' kindergarden

The Kindergarden

- Suppose you are the manager of a day-care center for young children.
- The center is scheduled to operate every day until four in the afternoon, when the parents are supposed to come and collect their children.
- Quite frequently parents arrive late, and force you to stay after working hours.

- You have considered a few alternatives in order to reduce the frequency of this behavior.
- A natural option is to introduce a fine: every time a parent comes late, she will have to pay a fine.
- Will that reduce the number of parents who come late?

Aldo Rustichini and Uri Gneezy field study

- They studied the effect of fines on the frequency with which parents arrive late to collect their child from day-care centers.
- Data include observations of 10 day-care centers over a period of 20 weeks.
- In the first 4 weeks they simply observed the number of parents who arrived late.
- At the beginning of the fifth week they introduced a fine in six of the 10 day-care centers.
- The fine was imposed on parents who arrived more than 10 minutes late.
- No fine was introduced in the four other day-care centers, which served as a control group.

...next slide shows what happened...

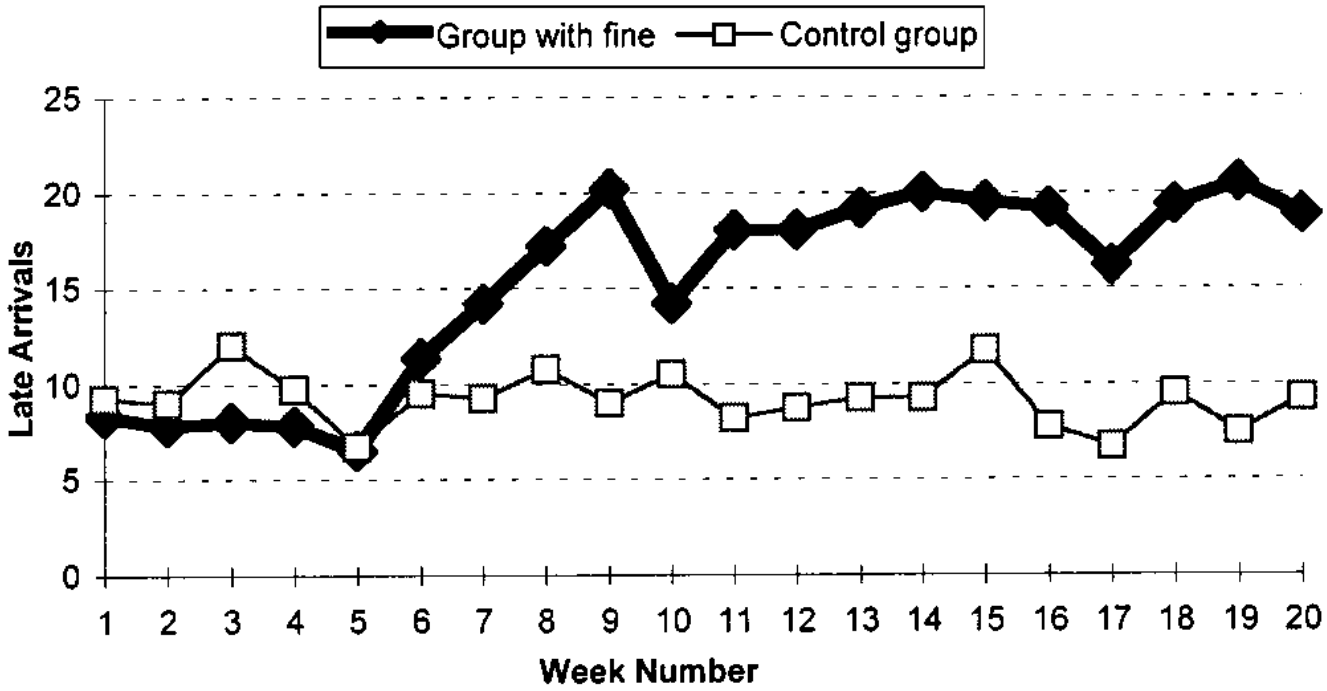

FIGURE 1.— Average number of late-coming parents, per week

Main findings

- After the introduction of the fine we observed a steady increase in the number of parents coming late.
- At the end of an adjustment period that lasted 2-3 weeks, the number of late-coming parents remained stable, at a rate higher than in the no-fine period.