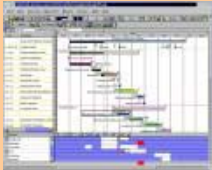


Advanced Management



A Wrinkle

- At the end of the day the employee takes the receipts to the bank, where the teller is her brother.
- They conspire to skim. You get a receipt from the bank for a \$1,000 deposit, but only \$900 is deposited.

A Wrinkle

- At the end of the day the employee takes the receipts to the bank, where the teller is her brother. Not a big deal. The bank's Internal Audit department will catch this.
- They conspire to skim. You get a receipt from the bank for a \$1,000 deposit, but only \$900 is deposited.

Making the Agency Problem work for you

- You notice the large luxury apartment building down the road.
- Many tenants leave their dry cleaning with the doorman, who takes it to your competitor. He returns it to the tenants, who pay the bill and give him a nice tip.

Making the Agency Problem work for you

- You notice the large luxury apartment building down the road.
- Many tenants leave their dry cleaning with the doorman, who takes it to your competitor. He returns it to the tenants, who pay the bill and give him a nice tip.
- No business for you.

Making the Agency Problem work for you

- You clean his uniform for free.
- You give him free dry cleaning.
- Free Indians Tickets for the Doorman?
- Or – better yet – 10% of the tenants bill is rebated to him in cash.
- You discover he pays for the dry cleaning on his credit card, and pockets the frequent flyer miles.

A New Wrinkle

- Your new Saturday employee reports brisk business.
- Suggests hiring an Armored Car Service to pick up the receipts.
- Makes her life easier, but costs money.

A New Wrinkle

- Your new Saturday employee reports brisk business.
- Suggests hiring an Armored Car Service to pick up the receipts.
- Makes her life easier, but costs money.

**Savings in Salary >
Brinks Bill?**

Congratulations!

- You have just discovered expense preference.
- While you want to treat your employees fairly – that is good business after all – you are in business to make money.
- The cost of the Brinks pick-up is coming out of your pocket, not hers.

Congratulations!

- You have just discovered expense preference.
- While you want to treat your employees fairly – that is good business after all – you are in business to make money.
- The cost of the Brinks pick-up is coming out of your pocket, not hers.

An obvious control technique. You, not she, gets to make the decision about hiring Brinks

Lets Make These Harder

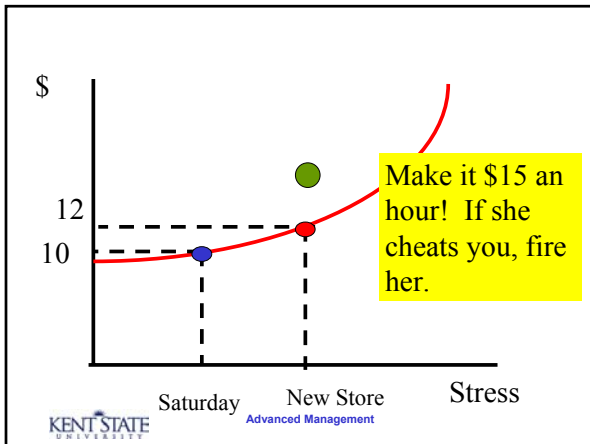
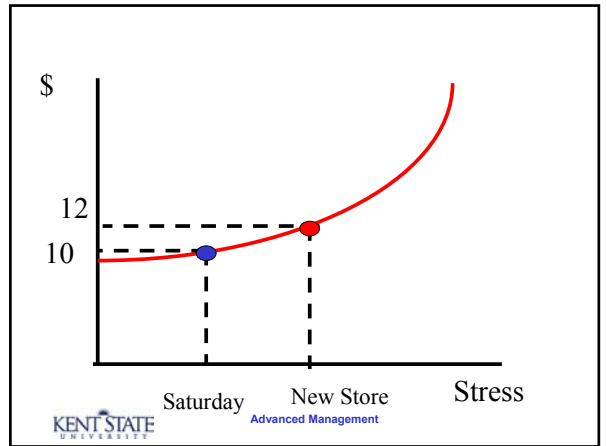
- The Dry Cleaning Business is Really Going Well.
- You open another store, and because your Saturday Employee has worked out so well, make her manager. She hires and fires, etc.
- Also gets to hire a Saturday replacement.

Advanced Expense Preference

- How do you motivate the employee?
- Supervision is difficult
- Why should she not simply rip you off?

Two Suggestions

- Suppose she was making \$10 an hour. Since the job involves more stress, a raise to \$12 an hour is called for.



Two Suggestions

- Suppose she was making \$10 an hour. Since the job involves more stress, a raise to \$12 an hour is called for.
- Franchise the store.
 - The McDonald's Solution

End

©2004 Charles
W. Upton