



Case: On The Folly of Rewarding A, While Hoping for B Improving Collections at Atlas Corporation

The Atlas Corporation rents and sells furniture and appliances to individual consumers. The company's primary market focuses on customers who rent-to-own; the customer pays a rental charge (which includes an interest factor) for a specified time and at the end of that time, owns the furniture. Atlas has its own credit department for these contracts.

Over the past two years, it has been difficult for Atlas to collect customer payments in a timely manner. The typical outstanding past-due account level at Atlas is almost twice that of the industry. As a result, Atlas has experienced a sharp drop in profitability. The effect on profitability is such that Atlas now pays a higher interest rate to its bank to carry its own indebtedness and has been unable to attract private funding.

Atlas wants its accounts receivable (A/R) department to increase its collection of past-due bills. It has turned to you for input on ways to help A/R clerks increase their dollars in collections each month. Each A/R clerk is a non-exempt hourly employee. Information on four clerks has been provided to help you understand the situation (their performance data is shown in the attached table). The performance of these four clerks is typical of the total set of 25 A/R clerks at Atlas.

Currently, A/R clerks are compensated as follows:

- An hourly wage that starts at \$12.00 per hour.
- After three months, the hourly wage increases to \$13.00.
- After one year, the hourly wage increases to \$15.00.
- In addition to the hourly wage, clerks can also earn
 - A bonus for managing a client load greater than the average load. For each 5% of client load above average, a bonus of 10% of the hourly wage is earned.
 - A bonus for completing a greater number of phone calls with clients than the average load. For each 5% of phone calls to clients completed above average, a bonus of 5% of the hourly wage is earned.
 - A bonus for above average client satisfaction (as measured by an end of phone call survey of clients). Having ratings that are in the top 50th percentile yields a bonus of 5% of the hourly wage. Having ratings in the top 25th percentile yields a bonus of 10% of the hourly wage. Having ratings in the top 10th percentile yields a bonus of 15% of the hourly wage.
 - Having a past-due account level that is below the company average yields a bonus of 10%.

Past-due accounts that are not paid after four months in arrears are sold to an outside collection agency for 25 cents on the dollar. Currently, approximately 20% of accounts that become past-due are sold.

The information in the following table provides the previous year's results ("Monthly Total" means the amount due but NOT collected in that month).

Previous Year Outstanding Past-Due Accounts (By Clerk)

MONTH	Clerk A	Clerk B	Clerk C	Clerk D	MONTHLY TOTAL
Jan	\$3,000	\$15,000	\$5,000	\$2,000	\$25,000
Feb	\$3,000	\$11,000	\$17,000	\$4,000	\$35,000
Mar	\$2,000	\$4,000	\$5,000	\$5,000	\$16,000
Apr	\$13,000	\$2,000	\$6,000	\$12,000	\$33,000
May	\$8,000	\$19,000	\$2,000	\$3,000	\$32,000
Jun	\$3,000	\$14,000	\$8,000	\$17,000	\$42,000
Jul	\$2,000	\$10,000	\$5,000	\$8,000	\$25,000
Aug	\$5,000	\$12,000	\$1,000	\$2,000	\$20,000
Sep	\$11,000	\$8,000	\$0	\$4,000	\$23,000
Oct	\$22,000	\$5,000	\$5,000	\$8,000	\$40,000
Nov	\$3,000	\$8,000	\$2,000	\$5,000	\$18,000
Dec	\$1,000	\$4,000	\$5,000	\$2,000	\$12,000
YEARLY TOTAL	\$76,000	\$112,000	\$61,000	\$72,000	\$321,000