

**Employee Compensation Strategies
for Agricultural Enterprises**

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As economies of size become increasingly important in production agriculture, the agricultural workforce will continue to expand beyond the scope of the farm family. With this labor evolution comes unfamiliar and frequently risky new responsibilities for producers. One new responsibility is setting and implementing a fair wage scale that can serve to recruit, retain, and motivate a qualified workforce.

It is important to emphasize that expanding farm workforces provide both a potential source and solution for agricultural risk (Doane's). Managers who depend on farm employees take many risks in terms of potential damage to machinery, crop or livestock damage, or lost efficiency due to employee error. The most common risks producers take when utilizing employee labor are: essential tasks are not done; work is done, but poorly or not on time; direct labor expenses associated with turnover; conflict with employees that may result in legal action or lost productivity; and government penalties for law and regulations violations (Rosenberg). While there is no pre-set formula for human resource management success, a good first step toward minimizing these and other risks is to create a compensation package that both provides for the needs of the employees and offers incentives for quality work and performance. That is where the emphasis on compensation should be placed.

Compensation guidelines

According to Schuler, "Total compensation involves the assessment of employee contributions in order to distribute fairly and equitably both direct and indirect organizational rewards in exchange for these contributions." As noted by Schuler, compensation has evolved beyond just an hourly wage. Both direct and indirect elements are present in most successful compensation packages. Direct compensation includes an employee's base salary which can be an annual salary or hourly wage and any performance-based pay that an employee receives, such as profit-sharing bonuses. Indirect compensation is far more varied, including everything from legally required

public protection programs such as Social Security to health insurance, retirement programs, paid leave, and life cycle benefits, for example child care or moving expenses (Schuler). Both of these types of compensation are important in developing a competitive compensation package.

While many schools of thought exist on what constitutes a fair wage, there are no hard and fast rules. Research indicates that compensation is among the leading things potential employees consider when looking for employment. So the question employers should be asking is, what do employees expect wages to do? Research from the University of California says employees expect wages to 1) cover basic living expenses, 2) keep up with inflation, 3) provide some funds for savings or recreation, and 4) increase over time (Billikopf). While recent research has been devoted to the links between employee pay and satisfaction (Fogleman, et al), the general consensus of these types of studies is that pay should be tied to performance to be effective. However, with agricultural jobs, that cannot always be done easily. Incentives offer the most common type of performance-based pay but there are other alternatives for managers to consider. Time-based pay is another performance-based option but before this, or any other alternatives can be discussed, it is important to develop a clear understanding of wage structures (Billikopf).

The first thing employers should consider when developing compensation packages is fairness. It is crucial that businesses maintain internal and external equity. Internal equity refers to fairness between employees in the same business while external equity refers to relative wage fairness compared to wages with other farms or businesses. No matter the compensation level, if either internal or external equity is violated, a business will most likely experience employee dissatisfaction and employees will begin to balance their performance through a variety of ways ranging from decreased productivity to absenteeism and eventually to leaving the business (Billikopf).

Evaluating the Jobs

So the question then becomes, what constitutes a fair wage? One approach to determining a fair wage is a market survey. These are typically fast and easy ways to

establish compensation guidelines for many businesses. A few phone calls to other employers in similar businesses can determine the “market” value for a specific job (Schuler). Unfortunately, this technique is not necessarily well suited for agricultural producers. Few market surveys have been conducted with farm bases, and this type of formal research is more usually done with more mainstream industries such as manufacturing (Fogleman et al). An agricultural manager can do informal surveys of other agricultural producers to determine the “going rate” for labor or modify existing studies of non-agricultural studies to compare employees not by job title but by skill sets. For example, operating a forklift in a factory and driving a tractor may require similar skills and so therefore can be compensated similarly.

The Kansas Department of Human Resources, through Labor Market Information Services, issues the Kansas Wage Survey annually. Though limited, this instrument does include average and median wage rates for some basic agricultural positions. It can, therefore, be a good place to start when the market value of certain positions. It is important to emphasize that these statistics in no way represent the ideal wage. That is specific to every employer/employee relationship. These numbers, along with the results of the NEDPA study, are listed as benchmarking tools only.

Kansas Wage Statistics for Agricultural Workers
Source: Kansas Wage Survey

Job Title	Mean Wage \$/hr
First-Line Supervisors and Managers/Supervisors	\$12.20
Graders and Sorters, Agricultural Products	7.99
Animal Caretakers, Except Farm	6.30
Farm Equipment Operators	7.92
Sprayers/Applicators	10.13
Laborers, Landscaping and Groundskeeping	7.75
Veterinary Assistants	8.03
All Other Agricultural, Forestry, Fishing, and Related Workers	9.48

Critics are quick to point out that market surveys can be influenced by a number of factors and lead to wages that don't reflect the actual job. Certainly, the supply and demand of labor are the driving forces behind wage rates but they can also be influenced by company-specific factors like profit and productivity, legal restrictions, and cost of living indices (Schuler).

Job Evaluation is another technique that can be used to establish an equitable wage rate. This method is a more systematic and rational approach to internal equity where the jobs in an organization are evaluated according to compensable factors like education, skill, experience, and responsibility (Billikopf). Job Evaluation techniques vary and should be used differently in different businesses as demonstrated in Table 1 (Schuler).

Table 1
Job Evaluation Techniques

Method	Description
Job Ranking	Jobs are ranked in order of difficulty, criticality, or skill required. Works best with smaller organizations with fewer employees. It is difficult to rank jobs when there are fine distinctions between similar jobs and disagreements may result.
Job Classification	Classes or grades are established and every job is then categorized as a member of a specific unit. The jobs are classified by the whole job using a factor, like difficulty, to measure against. This technique may not work when compensable factors must be balanced to determine the relative equity of jobs.
Point Rating	Point values are assigned to different compensable factors such as level of responsibility and education. The points are then tallied to determine the relative net worth of the jobs. The more points assigned to a job, the more valuable that position is to the business. This may not work if the jobs cannot be described with the same factors.
Hay Method	Jobs are evaluated and compared to each other with respect to Problem Solving, Know-How, and Accountability. This system is accepted world-wide and has been held up in court as fair.

Evaluating the Person

Skill-based pay is an approach to compensation where the wage rate is based on the qualifications of the individual doing the job, rather than on the job itself. It is typically accomplished through skill classes that determine pay levels for jobs. Grouping employees of similar skills together, regardless of job title, forms these classes, or grades (Schuler). This technique can be applied to agricultural enterprises rather easily as demonstrated in a recent study of dairy farms by researchers at Cornell University.

In the Cornell study, five competency levels were developed to classify employees according to authority to make decisions, skill level, and supervisory capacity. Every employee was classified as one of the following five competency levels:

Level One: Employees who are either very new to the farm or have no advanced skills. They are, for example, individuals who are given their tasks by another person and then perform miscellaneous jobs that require no previous training or experience (ie. picking up rocks or weeding flowerbeds). This level can also include people who are in training for skill-specific positions such as milker but who have not yet acquired those skills.

Level Two: Very specialized individuals who perform anywhere from one to many specific tasks which require training. Although these employees may make personal decisions such as the order in which to perform certain tasks, they do not have the authority to make decisions relating to their job responsibilities, area of production, or coworkers. As a result, they have no supervisory authority. An example of a Level Two employee would be a machinery operator who is very good at his or her job but does not determine when to harvest.

Level Three: Employees who are very skilled in at least one specified area. These employees may make decisions related to his or her area of expertise and may administer those decisions through other employees, therefore giving a Level Three employee some supervisory capacity. However, this person's decision-making authority does not extend into other areas of the operation. An example of a Level Three employee is a feeder who makes all feeding decisions but does not determine the rations or what crops to plant.

Level Four: Because of his or her exceptional skill level, this person is in a position to make decisions which impact entire areas of the operation. Many employees could have to carry out those decisions, giving this person a potentially large supervisory authority. However, a Level Four employee's decision-making authority and supervisory capacity does not cover the entire farming operation. This person's input could affect other areas, but the ultimate decision is not his or hers.

Level Five: Level Five employees are the most skilled and qualified full time employees with a farm. They have complete supervisory authority and the most decision-making authority given to any full time employee (Fogleman et al).

The competency scale gives another angle from which to approach internal pay structure. Each employee can be cross-referenced by job title and competency level or studied solely within either category. The competency level approach seen here is one type of the very popular "Broadbanding" compensation mechanism by which employees of similar skill levels or competency are taken together in compensation "bands", regardless of job title. These bands then, theoretically, compensate like employees at like rates across the entire organization. The bands in turn serve to maintain both internal and external equity.

Point Factor Theory is yet another method of employee evaluation that can be used to establish a fair wage system. Various employee attributes are quantified; and by using an econometric model, dollar values are applied to each factor, such as a year of experience or a high school degree. This method requires a large sample and would probably not be conducive for many small farm managers. It does, however, provide an excellent measuring stick for farm managers to compare their wage structure against if the managers can gain access to a study done for a similar industry. This method was also used in the Cornell study of large dairy farms.

An Industry Example

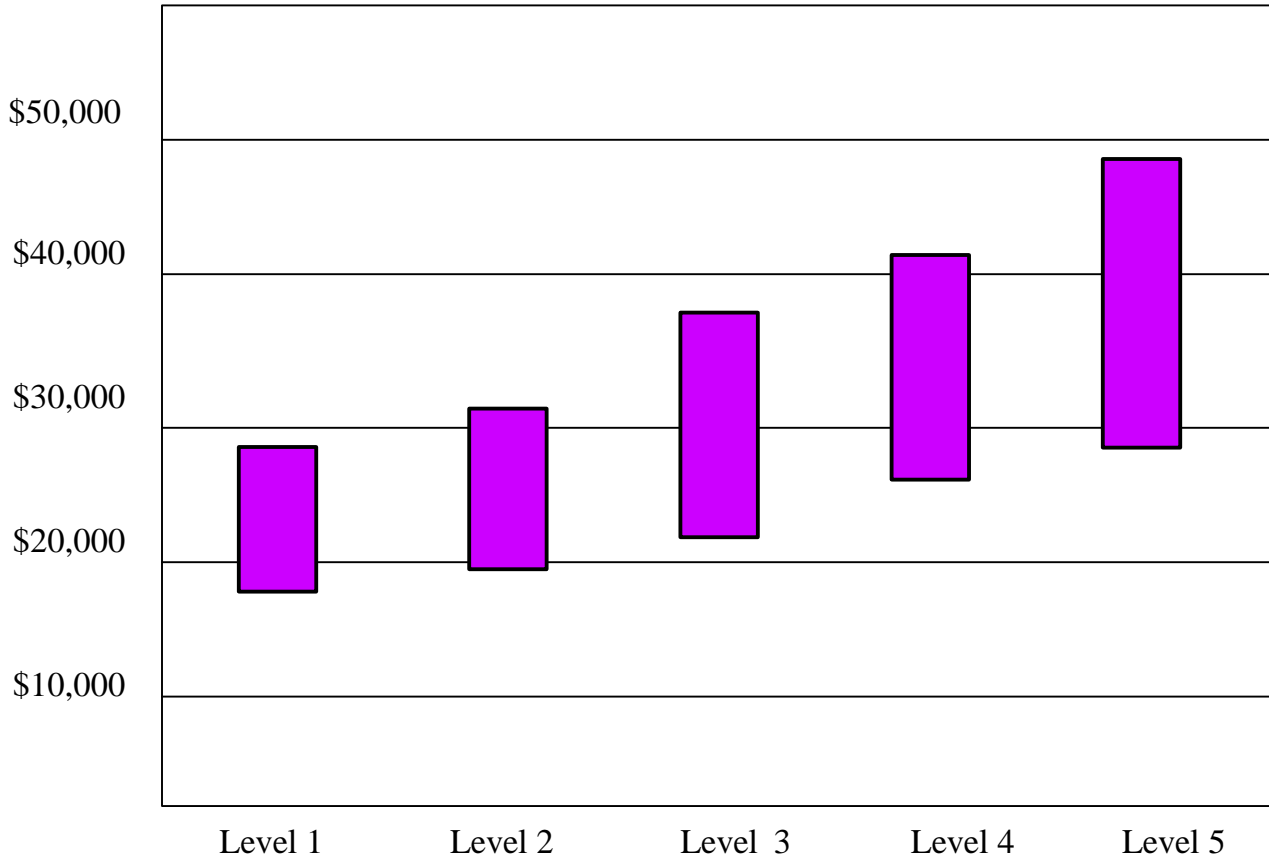
The Northeast Dairy Producers Association (NEDPA) is a group of very progressive and motivated Dairy Producers in six states in the Northeast. These established farms have been dealing with a complex workforce for many years, utilizing

employees from the farm family, part-time, and full-time employees. The members of NEDPA approached researchers at Cornell University in 1998 with a proposal to study the internal pay structure of all 106 NEDPA farms, what could potentially be groundbreaking research. As a result, total compensation information was collected and analyzed for 705 full-time, non-family, employees on NEDPA member farms.

The farm managers were asked to classify each employee as one of the five competency levels listed in the previous section. The employers also offered demographic information about each employee such as total years of dairy experience, years with the farm, educational background, and job responsibilities. The compensation information consisted of the annual value each employee receives in annual cash wage, housing benefits, health insurance, retirement programs, and other benefits and perks (like holiday bonuses or farm-provided vehicles.)

The competency levels were used to form the wage bands for this group of farms. All employees were grouped according to competency and the bands ranged in depth according to the compensation variation represented in each level, with the bands extending one standard deviation above and below the mean compensation value for each competency level. By referring to the competency definitions, an employer can classify an employee and refer to the pay bands to determine if he or she is being paid equitably. Furthermore, the bands show the natural hierarchy that exists in compensating higher level employees at higher rates.

Internal Pay Structure
On NEDPA Member Farms



While the compensation values seem to be fairly consistent for employees in Levels One and Two, the standard deviations indicate more variation in compensation values within the higher competency levels, resulting in much deeper bands. The descriptive statistics also illustrate the importance, or prevalence, of the compensation elements for each competency group as higher levels see more diverse compensation packages, with cash wage constituting a smaller percentage of the total compensation value. So as employees on these farms gain skill, supervisory authority and capacity to make decisions, they also gain more options in benefit packages.

Average Annual Employee Compensation
by Level

	Level 1	Level 2	Level 3	Level 4	Level 5
Total Compensation	\$21,712	\$24,315	\$28,123	\$34,083	\$38,847
	4414 ¹	5662	7553	8019	9664
	72 ²	255	238	116	24
Annual Cash Wage	19,764	20,471	23,544	28,095	29,579
	4022	4638	5961	5938	8812
	72	255	238	116	24
Health Insurance	2966	2863	3014	3252	3777
	1874	1583	1655	1828	1683
	17	117	136	74	16
Housing	3737	5120	5551	5273	7166
	750	2365	3149	1315	2819
	16	71	64	42	12
Retirement	949	831	1229	1404	1626
	369	317	1027	1012	1184
	7	50	76	48	10
Other Benefits	900	1805	1764	2464	3317
	821	2006	1654	3203	2172
	26	133	131	67	18
Hourly Wage ³	6.95	7.37	8.19	9.26	9.07
	1.24	1.30	1.53	1.89	3.09
	72	255	238	79	24

¹Standard Deviation

²Number of Observations

³Hourly Wage Equivalent = Pay per hour for hourly and salaried employees

The point factor results demonstrate some interesting trends with respect to some common compensable factors. Consider work experience, employee competency, and education.

For every year of experience on the farm, not in the current position, total annual compensation increases by \$210. With a coefficient of 290, the number of years an employee has been in his or her current position is even larger and more significant, denoting a natural seniority-based compensation principle. Therefore, with our compensation bands, the number of years a person has been in his or her current position is quite possibly a determinant of that individual's position within the wage band. As he

or she develops even more seniority, it is highly likely that these employees may advance to a higher competency level, resulting in a higher compensation rate while maintaining the same job title.

In keeping with the theory behind the design of the competency levels and our previous compensation results, the competency levels are all statistically significant and follow much the same pattern presented through the pay bands. Where Level One is the base variable, the subsequent levels have greater and greater coefficients that increase by roughly \$3000 each level. Therefore, the model shows that an increase in competency level alone, regardless of an increase in tenure or change in job title, results in an increase in the value of an employee's total compensation package of about \$3000.

While the descriptive statistics showed an increase in education with advanced competency levels, this econometric information demonstrates that the education variables themselves are not the determining factors in the compensation amounts that accompany those levels. The argument can be made, however, that individuals with higher degrees of education are typically members of the higher competency levels, thus giving them more in total compensation.

The NEDPA farms had mixed success with using non-traditional compensation alternatives, such as farm-paid child care, utilities, phone service, trash service, store credit at local supermarkets, and laundry service. While most employees appreciated these benefits, many employers commented that the employees did not understand the value of these and other non-cash compensation elements. Managers who provided detailed information about the values of benefit packages to their employees on a regular basis reported the most success with these alternatives.

Getting Started

Farm managers face so many decisions every day, finding the time to structure and implement an equitable wage structure can be hard. To make the process easier, consider the following checklist:

1. Decide what you want your compensation package to do.
 - Recruit new employees
 - Motivate current employees
 - Reward well-performing employees
 - Minimize risk of violating federal laws
 - Build employee loyalty
 - Any combination of the above
2. Pick your compensation philosophy, either:
 - Job Evaluation
 - Employee Evaluation
 - Combination of both (like the NEDPA Study)
3. Determine your internal wage structure.
 - Evaluate the jobs
 - Evaluate the employees
 - Create Competency Groupings
4. Talk to your employees about their Indirect Compensation needs:
 - Health Insurance
 - Paid Vacation
 - Housing
 - Child Care
 - Retirement Planning
5. Structure your Total Rewards System. Including:
 - Indirect Compensation (Based on your employee's needs and your compensation objectives.)

--Direct Compensation (Based on labor market information and your compensation objectives.)

6. Implement your new system, remembering to:

--Communicate with your employees about their needs

--Review your compensation package regularly to make sure it is timely

--Be flexible and innovative to maintain a competitive advantage

Successful agricultural managers rely heavily on common sense and the area of employee compensation should be no different. If you want your employees to be innovative—reward them for new ideas. If you want your employees to stay with you for long stretches of time instead of training new employees every season—offer bonuses or tie their wages to their tenure. If you need employees that show up on time, work hard, and can be trusted with the most challenging of tasks—recruit those people; reward those people; promote those people. The future of your business could depend on it.

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