

Creative Compensation

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There are many different aspects of human resource management. Some are optional. Some are not. While it may be easy for an employer to put off writing a job description or assembling a handbook, the process of setting up a compensation package is one that every employer has had to go through. Granted, some employers spend weeks or years choosing health insurance providers, doing wage studies, and setting up 401(k)s while others may just pick a dollar figure out of the air and call it finished. No matter how much time and effort is spent in setting up the compensation package, there are three basic principles all employers, large or small, should consider.

1. Send the Right Message
2. It's not about Money
3. Use the Right Carrots

Send the Right Message

When it comes to employee compensation, most managers are busy asking: “What do I have to pay to?” That is not an easy question to answer. A better question might be: “What do I want my compensation package to say?” Whether you realize it or not, it is already saying a lot. Child care and health benefits say that you value family. Giving longevity bonuses for employees on the anniversary of their employment with you says that you value employees who stay with the business. Throwing a party at the end of your business's busy season lets the employees and their families know that you

appreciate it when your people go the extra mile. No matter what compensation elements you use, they all carry a message.

That message is important. It is the principle on which the following two components of this paper are based. Compensation packages can be linked to business structure, employee recruitment, retention, motivation, performance, feedback, and satisfaction. Compensation is typically among the first things potential employees consider when looking for employment. It is important, therefore, to give a lot of consideration to your business's compensation structure. After all, for employees, compensation is the equivalent not to how they are paid, but ultimately, to how they are valued.

It's not about Money

It's easy to think "dollars per hour" when thinking about compensation. But an employer who develops a truly creative and successful compensation package understands that it's not about money. It's about meeting the employee's needs.

One of the biggest mistakes an employer can make is to make a large investment of time or money to initiate compensation elements that his/her employees do not need or want. Successful compensation packages are really total rewards systems, containing non-monetary, direct, and indirect elements all based on the objectives of the employer and the needs of the employees

Non-Monetary Compensation can include any benefit an employee receives from an employer or job that does not involve tangible value. This includes career and social rewards such as job security, flexible hours, and opportunity for growth, praise and recognition, task enjoyment, and friendships.

Direct Compensation is an employee's base wage. It can be an annual salary, hourly wage or 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, child care or housing (Schuler).

Employers have a wide variety of compensation elements from which to choose. By combining many of these compensation alternatives, progressive managers can create compensation packages that are as individual as the employees who receive them.

Some indirect compensation elements are required by law: social security, unemployment and disability payments. Other indirect elements are up to the employer and can offer excellent ways to provide benefits to the employees and the employer as well. For example, a working mother may take a lower-paying job with flexible hours that will allow her to be home when her children get home from school. A recent graduate may be looking for stable work and also an affordable place to live. Both of these individuals have different needs and, therefore, would appreciate different compensation elements.

In a tight labor market, indirect compensation becomes increasingly important. Businesses that cannot compete with high cash wages can offer very individualized alternatives that meet the needs of the people you want to employ. Such creative compensation alternatives are the small business's competitive advantage.

Indirect Compensation Alternatives

Flexible Working Schedules	Elder Care
Retirement Programs	Moving Expenses
Insurance (Health, Dental, Eye)	Subsidized Housing
Paid Leave (Sick/ Holiday/ Personal Days)	Subsidized Utilities
Tickets to Events (ball games, concerts)	Magazine Subscriptions
Boots and Clothing	Laundry Service
Company Parties	Use of Farm Trucks, Machinery
Farm Produce / Foods/ Meals	Cellular Phones/ Pagers
Child Care	Use of Farm Pastures and Gardens

Ask ten different people what a fair wage is and you'll get ten different answers. While there are no hard and fast rules in determining a fair wage, the importance of the task is obvious. Research indicates that 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). Discussing wage expectations with employees can help determine what their compensation package should look like.

While money isn't everything when constructing a compensation package, it is a large portion of what the package may eventually contain and it may be the only element a potential or current employee may think about when considering other employment options. It is absolutely vital 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).

So, 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 (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 businesses 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, therefore, can be compensated similarly.

Use the Right Carrots

While the second principle applies to meeting the needs of the employees, the third principle applies to meeting the needs of the business.

A compensation package is one of the most concrete ways in which an employer can communicate the mission, vision, and values of the business. The benefits and incentives set in place by the compensation package will invoke certain responses from the employees. An employer has to be certain that those responses match the objectives of the business. In other words, the employer has to be careful to “use the right carrots.”

For example, consider a farrow to finish swine operation where the farrowing unit has seen an increase in pre-weaning mortality. To help solve this problem, the owner instigates a bonus system based on

live pigs out the door. The result: nursery mortality starts to rise as sick and weak pigs who normally would have stayed in the farrowing unit are shipped off to the nursery and, eventually, die.

Are the employees of that farrowing unit to blame for the sudden rise in nursery mortality? No. If you're surprised by that answer, think again. Based on their compensation package, those employees were only doing what their managers wanted them to do—they were following the carrots. As Johanna Slan said in Using Stories and Humor, “Sometimes we try to fix people when it's the system that stinks.”

So, is it worth the risk? Should an employer instigate some type of performance incentive when there is a possibility that it will only create problems in other areas of the business? The answer is, yes, it is worth the risk. The general consensus of recent studies is that pay should be tied to performance to be effective. The key is in finding carrots that don't send the wrong message and making employees understand how their actions impact the entire business.

Successful managers must search for things the employees influence and base performance objectives on these areas. Your operation may benefit from the following: tenure bonuses for long-time employees, equipment repair incentives to encourage good equipment maintenance, or bonuses for arriving to work on time. The more production information data your business has, the easier this is to accomplish. Measures such as feed conversion rates, somatic cell count, or mortality can offer great sources for performance incentives. But, as always, be certain that those incentives send the message that you want your employees to receive.

Conclusions

Agricultural managers face many decisions every day. Finding the time to build and implement an equitable wage structure can be difficult. 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. Talk to your employees about their Compensation needs:
 - Health Insurance
 - Paid Vacation
 - Housing
 - Child Care
 - Retirement Planning
3. Structure your compensation package based on what your business is about:
 - Goals
 - Mission
 - Vision
 - Values
4. Implement your new system, remembering to
 - Communicate with your employees about their needs

--Review your compensation package regularly. Make sure it is fair, equitable, and competitive.

--Be flexible and innovative to maintain a competitive advantage

--Maintain both internal and external equity

Successful agricultural producers rely heavily on common sense when it comes to management decisions. 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 a long 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.

References

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