8

Incentive Pay[1]



Ed Perry

"My labor costs went down 50 percent for the same amount of production .... The hard-working person was making [twice, on a per hour average, than the slower ones]. I use incentive pay for other jobs as well [besides plants balled, dug, and burlapped], such as potting plants—I wish I could use it for everything!"[2]

Tennessee Nursery Grower

Incentive pay is generally given for specific performance results rather than simply for time worked. While incentives are *not* the answer to all personnel challenges, they can do much to increase worker performance.

In this chapter we discuss casual and structured incentives. Although each rewards specific employee behaviors, they differ substantially. In structured incentives, workers understand ahead of time the precise relationship between performance and the incentive reward. In a casual approach, workers never know when a reward will be given.

Casual Incentives

The simplicity inherent in the *casual incentive* approach attracts many farmers who would not consider a structured incentive. Casual rewards include a pat on the back, a sincere thank-you, a $50 bill, a dinner for two at a local restaurant, or a pair of tickets to the rodeo (workers may have excellent


Jack Kelly Clark


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suggestions along these lines). You may want to entitle workers to choose from a menu of several rewards.

Accompanied by a specific commendation, "This is for reducing our total harvest-time machinery break downs," the reward is more effective than "thanks for all you do." To be of use, these casual incentives must be given at *unexpected intervals*.

A bonus given routinely soon becomes part of the expected compensation package. Casual incentives communicate to employees that you have noticed their efforts. People thrive on positive feedback.

Drawbacks. Three possible drawbacks to the casual incentive approach may include (1) *envy* among employees, (2) feelings among workers that the supervisor may be acting out of *favoritism*, and (3) the use of rewards to maintain *social distance*.

While there are times when praising workers in public is appropriate, at other times it may do more harm than good. An example of the latter is when coworkers hear a direct or implied comparison between the rewarded employee and themselves.

Even though workers are likely to tell others about their rewards anyway, the force of the comparison is reduced when you give casual incentives privately. Perceptions among workers that rewards are given in a capricious or arbitrary manner, however, may still remain.

One way of overcoming both envy and favoritism challenges may be by having workers nominate others for these casual awards. The nominating procedure should be kept simple. Recognition coming from fellow employees is unlikely to cause resentment and is one of the most sincere forms of praise. This type of recognition could even be given in public. Unfortunately, chances are that workers will be rewarded for their popularity.

Sometimes employees are reaching for a *positive stroke*: an acknowledgment that their superior performance has been noticed. While casual incentives can be very appreciated rewards, they can also be used to keep a social distance from the persons to whom they are given. This may happen, for instance, if an employee receives a monetary reward when he was reaching for psychological proximity instead. Only you can discern your employee's needs in a given situation. After all, both workers and situations vary.

Suggestion Plans. Suggestion plans may also be handled under a casual incentive system. You may want to recognize personnel for suggestions resulting in savings or increased productivity. In one instance, a farmer saved thousands of dollars after an employee suggested a more frequent adjustment to the scales. This farmer had been giving away carrots for some time.[3]

Employee suggestions that require small capital or labor outlays to implement, such as what was needed to keep the scale adjusted, should generally result in larger rewards. Expensive or difficult to implement suggestions may not yield any pay reward but a simple acknowledgment to the worker.

You must decide whether to reward all workers or only the authors of an accepted suggestion. There may be a balance that rewards teamwork and individual creativity.

Regardless of approach, a functional suggestion system needs management follow-through. Receipt of worker recommendations, as well as possible action to be taken, needs to be acknowledged promptly to those who make the proposals.



Public praising of an employee may cause jealousy between workers.

Not every suggestion will be accepted, yet employees should be kept informed on the status of suggestions. A structured incentive plan, discussed next, helps both workers and management improve communications.

STRUCTURED INCENTIVES

Structured incentives can help direct employee efforts. Other benefits include cost certainty and cost reductions for the farmer. Benefits to employees include higher pay and satisfaction.

Farmers' feelings about structured incentives generally fall into four groups:

1. Incentives work well—they have either helped motivate or maintain high worker performance. A Stanislaus dairy farmer spends $5,000 to $7,000 each year to implement his incentive program and gets $55,000 to $57,000 back. Many farmers experience a 40 percent cost-savings when moving from hourly to piece-rate paid wages.

2. Challenges posed by incentives — Top concerns about incentives from a farm survey[4] included: (a) poor quality work (or neglect of important goals not directly rewarded by the incentive); (b) no change in worker performance; (c) difficulty in setting standards; (d) change in work methods or technology; and (e) excessive record-keeping.

3. Incentives do not apply to present needs.

4. Incentives are not used because of lack of information on how to establish them.

Workers are also divided in their feelings about incentive pay. One dairy employee said incentives are what farmers pay when they do not want to pay workers a fair wage. Another milker, in contrast, was very enthusiastic about the incentive program the dairy farmer had instituted: it made him feel part of a team. Orchard, vineyard, and vegetable crop crew workers are also split on incentives.

Despite the benefits of piece-rate pay, crew workers in one study were evenly divided between those who favored hourly pay and those who liked piece-rate pay. The most common reason for preferring piece-rate pay was increased earning potential. Workers could acquire greater earnings in fewer hours of work, even though it took more effort to do so. Worker preference for hourly work fell into three general categories. Crew workers (1) felt that piece rate was unfair (they were mostly concerned about what they viewed as game playing in how piece rates were determined), (2) preferred the pace of hourly paid work, or (3) associated other benefits with hourly pay.[5]

Despite the benefits of piece-rate pay, crew workers often (1) feel it is unfair how piece-rates are determined; (2) prefer the pace of hourly paid work; or (3) associate other benefits with hourly pay.



Despite the potential perils, when properly designed and implemented to protect both farmer and farm personnel, structured incentives work well.

Examples of structured incentives

A structured incentive (1) must be capable of *fluctuating* (variable pay) as performance changes, and (2) is based on a *specific accomplishment-reward connection understood* by both management and workers.

Examples of typical incentives:

- piece-rate pay for pruning or picking
- allowing workers to go home early, with full pay, when they finish a job
- end-of-season bonus for employees who stay to the end
- quality or production incentive

- bonus for reducing production costs
- profit sharing.

Examples of payments or benefits which are not incentives:

- most mandated benefits such as unemployment insurance, workers' compensation
- nonmandated benefits that do not fluctuate, such as housing
- wage increases, vacation, or rewards that, once earned, are seldom lost
- pay tied to time worked (except for bonuses for attendance, difficult shifts, and the like).

STEPS IN ESTABLISHING STRUCTURED INCENTIVES

This section provides seven guidelines helpful in deciding whether to establish, and how to design and troubleshoot, structured incentive programs.

(1) Analyze the challenge and determine if incentives are appropriate.
(2) Link pay with performance.
(3) Anticipate loopholes.
(4) Establish standards and determine pay.
(5) Protect workers from negative consequences.
(6) Improve communications.
(7) Periodically review the program.

Step No. 1. Analyze the challenge and determine if incentives are appropriate

The purpose of an incentive program needs to be clear and specific. Slow cucumber picking, high levels of swine death loss in farrowing operations, and sick leave abuse are examples of specific, measurable problems.

Just because a goal can be measured in clear and specific terms, however, does not mean incentives are called for. Incentives may not be appropriate to motivate employees who lack the resources or skills to perform. No amount of incentive will help an unskilled egg production barn manager improve feed conversion. Because establishing incentives is not simple, employers sometimes opt for other solutions. A dairy farmer tried several ways to improve an employee's milk quality performance. A veterinarian was called in to demonstrate proper milking techniques, but the improvement was short lived. The worker knew how to do the job but was not doing it. The producer decided not to implement an

SIDEBAR 8-1

Safety Incentives

Safety incentives reward workers with good safety records (often measured in terms of reportable accidents) or for safety suggestions management considers worth implementing. Rewards for good suggestions can be positive in the area of farm safety as well as in reducing waste, improving productivity, or other areas. However, it seems peculiar to have to pay workers not to get hurt. After all, it is the worker who has the most to lose by an injury or illness. Instead, farmers may improve their safety record through (1) a policy encouraging a safe working climate, (2) worker training, (3) hazard evaluation and correction measures, (4) safety committees, (5) discipline for violation of safety rules, and (6) careful employee selection, including the use of pre-employment physicals.

In some instances safety incentives that deal with reported accidents may be construed to be illegal, as workers seem to be punished for filing workers' compensation claims.

If you still want to recognize employees for a long accident-free spell at the ranch, you may want to tailor a casual incentive. The reward should be given to all and be a simple, low-key, non-monetary prize such as a company hat or picnic. Along with the recognition, emphasis should be on safety and on reporting job-related injuries and illnesses, even those appearing insignificant.





Growers sometimes provide an incentive for employees to finish out the season, such as a per hour or per-unit incentive (e.g., for each box harvested) to be given employees who stay to the end of the season.

incentive pay system. Instead, in a last ditch effort, he warned the milker: improve or be fired. The milker improved so much that the dairyman gave him a raise a few months later.

One three-way classification of employee performance is (1) poor, (2) standard, and (3) superior. *Standard* performance is what can be expected from a worker just because he has a job. Rewarding workers with incentives for bringing their *poor* work up to *standard* would be like paying twice for the same job: once for having the employee show up, the other for working. Instead, an incentive pay program can reward workers who continue to produce *superior* work, or encourage those who already produce *good* work to excel.

Incentives designed to deal with farm safety seem inappropriate to me. Such incentives may do more to deter the filing of workers' compensation claims than to reduce accidents. Workers may hide incidents of injury or illness in order to earn a reward—or avoid the wrath of peers (see Sidebar 8-1).

A farmer who pays well, provides positive working conditions, and has a waiting list of employees who want to work for him, does not normally need to turn to incentives to improve punctuality or attendance, except for seasonal work.

Farmers have been successful in providing an incentive for employees to finish out the season and even to return the next one. The most typical approach has been to pay a per-hour or a per-unit incentive (e.g., for each box harvested) to be given to employees who stay to the end of the season, and to match this bonus if employees show up for the next season. Since finding a sufficient labor supply is becoming increasingly difficult in agriculture, this system can yield good results. Extra pay may also be provided to recognize particularly difficult conditions, such as staying through extra wet months in the dairy.

Tradition is not always the best indicator of what programs will work under incentive pay. Although hoeing and other forms of manual weed removal have customarily been paid by the hour, at least one farmer has been successful in converting from paying by the hour to paying by the row. This farmer went from having workers clean about three rows per day on an hourly basis to a range of nine to 16 rows per day under piece rate.

Incentives are often needed to counteract the effect that crew dynamics has on performance. Hourly paid workers tend to perform as fast as the slowest worker in the crew. Workers paid by the hour tend to cling together, while those paid by the vine tend to spread out, some working much faster than others.

For instance, piece-rate vineyard pruners are, on the average, 37 percent

faster than those paid by the hour. Hourly-paid crews require an average of 26 man-hours per acre pruned, in contrast to only 19 man-hours per acre for piece-rate paid crews.[6] Farmers who have successfully established piece-rate pay have been able to also control for quality (more under *loopholes*) of production.

Step No. 2. Link pay with performance

Some farmers offer end-of-season profit sharing plans "because we did well this year." Lamentably, there are too many factors that affect farm profits besides worker productivity. Weather and market are two external concerns, while farm accounting procedures can be an internal one. Personnel must trust that the farm enterprise will report profits in a fair and honest way.

Workers do not always see a link between their efforts and profits. Another danger is a streak of ever increasing profits followed by several years of deficits. While many workers will be very understanding at receiving a reduced profit-sharing paycheck for a year, few will tolerate a longer drought without experiencing considerable dissatisfaction. One manager shared with me his excitement about a substantial profit-sharing bonus. As a result, he worked much harder the next year and felt defrauded when that check ended up substantially reduced when compared to the first year. He soon left that enterprise.

In another instance, a worker at an equine and cattle facility explained, "I put the same effort each month, but in some I get the added bonus of getting a profit-sharing check." The ranch employee was explaining that he did not do anything special to try and get a higher bonus, but that some months he would get one while in others he would not. Since he was not putting any effort into obtaining the bonus, the employee felt that it was a windfall in those months when he would get something.

Instead of being a motivator, profit sharing can discourage employees. Not only are profits dependent on the efforts of the whole organization, but profits can be fickle. This is true for any organization, but it is especially true in farming where there may be a rash of good years followed by bad ones.

Risk sharing is related to profit sharing. Here employees are given higher profit-sharing bonuses in good years in exchange for getting a lower base pay than normal in unprofitable years. That is, in contrast with the normal system of profit sharing, in bad years the employees not only did not earn a bonus, but also lost part of their base salary; in good years, they earned bonuses much greater to what they would have earned normally. It is not surprising that companies favor risk sharing ventures more than employees do: "[The employee] gambles along with the company... Clearly, at-risk plans shift some of the risk of doing business from the company to the employee."[7]

Any time employees are rewarded or punished for that which they cannot control, farm employers are asking for a cynical or disillusioned workforce. All this having been said, some farmers may wish to have a *very small* profit-sharing bonus as a teaching tool for top and middle management. Much better than profit sharing, however, is breaking down all elements under the control of employees or management that affect profits and rewarding personnel for achieving results.

A Fortune 500 executive, after explaining three of his most important goals—making an important contribution to society, developing excellent products, and making the

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organization a good place to work—made quite an impact as a guest speaker by pretending to momentarily forget his fourth goal: "The fourth goal . . . there must be a fourth goal. I mentioned it in a speech at [a nearby university]. Oh yes, the fourth goal is to make a profit."[8] Sooner or later, then, when the profit potential is there, the farming enterprise will make money as employees improve their ability to make changes in areas they control.

Seasonal fluctuations and other factors may need to be considered when setting incentives. When attempting to control mastitis in the herd, for instance, a dairy manager has to consider variables beyond the control of her workers. Because mastitis is caused by several factors, it is desirable to consider them all. A milker would soon be discouraged if, no matter how diligently he used any specific prevention technique, the mastitis level was sensitive to improper machinery maintenance or seasonal fluctuations caused by environmental factors.

One way to categorize incentive pay is by whether individuals, small groups, or all farm personnel are covered. Individual incentive plans offer the clearest link between a worker's effort and the reward. Probably the best-known individual or small group incentive pay plan in agriculture is *piece rate*. Piece rate is more suited to crew work (e.g., boysenberry picking, vineyard pruning) than to precision planting, fertilizing, or irrigating. Outcomes from the former tasks are easier to measure—both in terms of quantity and quality—than the latter.

Small group and farmwide incentives work better when it is difficult to distinguish individual contributions, or where cooperation and team work are critical. Group incentives do not automatically foster team work, however. More productive workers may resent less motivated or less talented employees.

A foreman reported that when his crews were paid a group incentive, the fastest workers would slow down the most. This is not surprising, given what we have said in earlier chapters, that the fastest employees are four to eight times more effective than the slowest. Some of them may ask themselves, "Why rush when we will all get paid the same?" In another operation where workers are paid on a group incentive, it happens often that some of the faster crew workers will pick what they consider their fair share, such as ten boxes of produce, and then "sort of kick the tires, take a lot of trips to the bathroom" and slow down in other ways. "The faster workers put a lot of pressure on the slower ones," explained one farm manager, "and we have even had those who felt so harassed they wanted to quit. The system has created tension and conflict among the workers."

As the tie between individual work and results is diminished, so is the motivating effect of the incentive on the individual. If you use small group incentives, such as teams of pickers harvesting into one bin, it helps to have workers choose and control their own teams. When workers who have partial control over results are not included in the incentive pay program, conflicts may arise. For instance, tension may grow between a field melon packing crew paid on a piece rate, and the hourly-paid equipment operator.

Dairy workers rewarded for detecting cows in heat (as part of a breeding program) may find an unusual number of cows in heat. Instead, workers could be paid for detecting cows in heat who are later confirmed pregnant.



Step No. 3. Anticipate loopholes

Being so specific about a single result may cause workers to achieve it at the expense of all others. Examples

include the herd manager who reduced the average number of breedings per conception, but did so by culling several of the best milk cows; and the field foreman who increased yields but spent more on production than what the extra yields meant in profits.

Allowing workers to "go home" (with a full day's pay) when they finish a fixed amount of work has the same motivating effect as most output-based incentive pay systems—and similar problems. The incentive is to get done as quickly as possible and go home.

SIDEBAR 8-2

Approaches Toward Improved Quality while Paying Piece Rate

Hourly base pay with piece-rate pay. The greater the proportion of pay going toward hourly pay, the less importance given to speed of work. These farmers may not be getting their money's worth, however. Hourly paid vineyard crews are substantially slower than piece-rate ones without obtaining sizable improvements in quality.[9]

Speed limit placed on workers. It is true employees who work faster than their skill level will do so by neglecting quality. Unfortunately, limiting worker speed, to be effective, would have to take place on a worker-by-worker basis. A maximum speed standard established for all crew members would likely result in expectations overly high for some and too easy for others.

Discipline. Minimum standards are set—or workers risk being disciplined. This tactic is perhaps the most commonly used and works relatively well (see Chapters 14 and 15).

Quality incentive. This method may take more time to set up but has the greatest potential. Set up *random quality-control* inspections or spot checks. Substandard scores can result in additional training or discipline. Superior scores earn a bonus. For instance, a cherry farmer may pay $3 per box picked, with a potential multiplier of 1.084 for good quality or 1.25 for superior quality (about 25 or 75 cents per box, respectively). Three workers picking 24 boxes each in a day would earn $72 (no bonus), $78.05 for good work, and $90 for superior work. The quality bonus has to be high enough as to provide greater rewards to the careful employee over the one who picks more boxes.

Earn the right to work in a piece-rate paid crew. An effective management tool is to have employees work on an hourly paid crew until they can prove their complete understanding of quality considerations. Only when workers have shown a complete mastery of quality are they moved to a piece-rate paid crew. As a condition of working in the piece-rate crew, workers are expected to keep up high quality performance. This approach can be effectively combined with the discipline and quality incentive above.

When farm labor contractors, supervisors, or crew leaders are paid in proportion to worker earnings, farmers may inadvertently be encouraging less attention to quality. Unless worker earnings are also tied to quality, it does not benefit supervisors to emphasize quality, since workers would have to work slower and supervisors would earn less.

When paying piece rate, quality incentives take more time to set up but have the greatest potential. Begin by identifying a range of acceptable individual performance. Then set up random quality-control inspections or spot checks. Sub-standard scores can result in additional training or discipline, while good marks earn employees an extra bonus per unit.



Gregory Encina Billikopf collection

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The number one loophole for *quantity* production incentives is often *quality*. Growers who choose hourly pay over piece-rate pay often cite quality as the main reason for doing so. A number of approaches are either in use or have been suggested to motivate crew workers while maintaining quality (see Sidebar 8-2).

Step No. 4. Establish standards and determine pay

This process involves clarifying expected performance, considering agricultural variations, noting when it is fair to eliminate incentives, contemplating potential savings and gains, determining base wage versus incentive pay, anticipating effects of technological or biological change, and converting standards into pay.

Clarifying expected performance. The first task is to establish and define standards.

- Does pruning a vine include removing suckers? Clearing cuttings from the bottom of the vines? Tying canes to the wire? Sawing off dead wood?
- Will mortality calculations include all calves—even those born dead or killed by lightning? Or, will a veterinarian conduct a calf autopsy and decide if it was a preventable loss?
- How full must picked boysenberry boxes be?
- How will the number of stemless, pitted, bruised, or low color cherries per sample affect quality grade?

Agricultural variation. Variations in crop load, vine vigor, or conditions that may affect worker performance need to be considered. Each commodity has its own idiosyncrasies. In grape pruning, there are multiple possible variations from variety to training method to spacing that could affect worker speed. Yet vine vigor and vine age both contribute most of the differences in pruning difficulty.[10] There appears to be a reasonably good fit between required effort in vineyard pruning and brush weight (within a given training system). Piece-rate pay could be based on the pruning brush weight of a random sample of vines within a block. Deciding pruning costs for vines that are affected by eutypa or other disease, very young vines, or vines that are in their prime becomes much easier to deal with, so it is fair to all involved. Crop density can likewise be used to make decisions about harvest piece-rate pay. In one orchard operation,[11] crop density is also used to determine how to pay for thinning fruit load.

Elimination of incentives. The specific circumstances for eliminating incentives should be clearly related to the incentive and articulated ahead of time. Employees on a milk quality incentive could lose incentive earnings, for instance, if (1) the milk got hot because no one turned on the cooler, (2) cows with antibiotics were milked into the bulk tank, or (3) line filter changes were neglected.

It makes little sense to eliminate a berry picking quality incentive for employees who commit unrelated infractions (e.g., come in late, get into a fight). Any prolonged elimination of incentives risks surrendering any motivational effect the incentive program may have had. If the breach is so serious, perhaps the farmer should consider worker discipline or termination.

Potential savings and gains. A dairy farmer trying to reduce calf mortality may ask: how much does it cost me every time a calf dies?[12] Unfortunately, many employers think more in terms of how much they expect workers to earn in an hour—rather than what the incentive program does in reducing costs (e.g., costs per acre). In a well-designed incentive pay program, a farmer should feel that the more his employees earn, the better off he is.

There may be a point where improvements beyond a certain level

require a substantially greater effort, yet yield less significant results. Efforts may be better directed elsewhere. There is a substantial milk production increase when somatic cell counts reduce from log scores of 5 to 4 or 3, but a smaller proportional increase in milk quantities for further improvements. For the worker to achieve the first improvements, also, is much easier.

Two conflicting principles must be balanced here: (1) greater worker effort should result in greater pay; and (2) greater employee earnings should result in increased profits for the ranch. You may need to create a reward structure with a ceiling beyond which no additional pay increments are obtained.

Base wage versus incentive pay. Some incentives constitute 100 percent of a worker's wages. Other incentives are combined with base wage earnings (Chapter 7). As a rule of thumb, the percentage of potential wages represented by incentives should consider the (1) amount of *control* a worker has over rewarded results, (2) *importance* of the rewarded results to the overall position, and (3) possible *loopholes* not covered by the rewarded results.

For instance, pickers and pruners often receive 100 percent of their wages through incentives. As long as quality of work is controlled in some way, this will work well. That is, (1) workers have full control over their performance, (2) the importance of speed is essential to the job, and (3) no important loopholes are neglected, since quality is also considered.

In contrast, a herd manager does not have full control over calf mortality, nor does calf mortality reduction represent his main job. This same manager may also be concerned with herd feed intake, improving milk quality, reducing days open, and supervision of milkers. If the loss of a calf is very costly, the importance of the incentive may increase. A calf mortality incentive in this case, then, could represent somewhere between five percent to 20 percent of potential wages.

Anticipate effects of technological or biological change. If new machinery, technology, biological stock or methods are being contemplated, farmers would do well to postpone introduction of new incentive programs until after such changes have been made and their effectiveness evaluated. Otherwise, the farmer will not be sure whether it was the technological change or the incentive pay that brought about results. Workers may either be blamed or paid for something over which they had little control. For example, thousands of dollars can be spent on new equipment that would automatically improve workers' performance. If the incentive was established before the equipment was purchased, it would mean paying twice for the equipment: the direct cost of the equipment plus the cost of the higher remuneration to the workers. Any changes in technology or measurement have the potential for a change in standard and can lead to distrust if not handled properly.

Converting standards into pay. If no historical performance data exists for making sound pay decisions, you may want to do the work yourself—or ask others you trust to do it. An alternative is to hire a temporary crew at a highly elevated piece rate, with the express purpose of establishing standards. In no case should the people who will eventually do the work, or someone who has a vested interest in the results (e.g., foreman with relatives in the crew), perform the trial.

When farmers ask employees to work first on an hourly basis until the standard is set, workers may perform at a reduced level (while sometimes making it look as if they are struggling or working very hard). Employees realize high performance during the trial will result in lower wages once the piece rate is fixed.

Once standards are set, a farmer may lower the requirements but *never* make them harder. A vegetable grower underestimated worker performance. When the crew workers earned much more than the farmer expected, he lowered the piece rate. The farmer lost credibility, worker morale fell sharply, and many left for other jobs.

Step No. 5. Protect workers from negative consequences

Employees have a number of reservations related to the use of incentives. These include such things as fear of job loss, unfair pay, and rate reductions. In the section on loopholes we considered how to protect the farmer when incentives are used. To protect employees:

- Provide a fair wage.
- Tell employees how much they are earning.
- Maintain fair standards.
- Hire fewer workers for longer periods.
- Protect senior workers.
- Provide timely performance feedback.
- Be sensitive to physical demands.
- Encourage workers to take rest breaks.
- Provide a safe environment.
- Avoid chance incentives.

Provide a fair wage. Workers are more likely to feel incentives are an excuse for low wages when they do not receive a fair base wage to begin with. They see incentives as either requiring unachievable goals in order to make a competitive wage, or only partially under their control. In contrast, when added to a generous base wage, incentives may be quite small and still be well received. Workers may look at them more as *casual incentives*; they provide positive feedback and a feeling of belonging to a team. If incentives are not proportional to the amount of work involved, however, they are unlikely to provide the intended motivation.

Tell employees how much they are earning. Cucumber pickers at one California farm did not find out what the piece rate was until the end of each day when they got paid—which was strictly on a per bucket basis. A worker thinning peaches did not know how much he was earning per tree. In a third example, workers in Voronezh, Russia, who were putting boxes together for packing fruit, did not know how much they would get paid per box until the end of the month. In each of these cases, the farmer, the farm labor contractor, and the enterprise manager respectively explained, "Our workers trust us." It became obvious, however, that the more buckets picked by the cucumber crew, the more trees thinned, or boxes built, the less they were going to get paid per unit. One of the workers in the thinning crew expressed frustration at not knowing what the piece rate was and pointing to the end of the long row said, "If I knew how much I was getting paid per tree, I would have already finished the row and would be on my way back."

Maintain fair standards. Even after a piece rate or other incentive standard is fixed, workers may be hesitant to show

Sidebar 8-3

Do Piece-Rate Paid Crew Workers Leave after Making a Wage Goal?

Some farmers resist increasing incentive pay levels when compensating seasonal crew workers. They have hypothesized that workers have a certain earnings goal for each day and that once this goal is achieved, workers will go home. Economists would explain this phenomenon as the *income effect*: increases in income allow those in the work force to take more time for leisure activities.

But economists also speak of the *substitution effect*: the greater the wages, the more a worker forfeits by engaging in leisure time. A study in numerous crops showed that fewer than three percent of crew workers out of more than 440 left work after reaching a wage goal for the day. About 11 percent of the respondents had at some time left earlier in the day, but the reasons given were (1) getting overly hot or tired or (2) not making a sufficient wage (i.e., low wages or not enough to pick). In either case, these workers were generally willing to stay longer if the earning opportunities were greater. Workers need to maximize earning opportunities when they can be fully employed. Leisure could come later, during "down time."[13]

farmers their full performance potential. A call from a grower will best illustrate what I mean. He expressed the frustration that his employees were *earning too much*. "I have been thinking of reducing what I pay per grapevine from 32 cents per vine to 28," he explained. I explained to the grower that the piece rate should not be diminished, that half his crew was apt to leave—the better half—and the other half would never trust him again. "I was just putting you to the test," the grower retorted. "I reduced the piece rate last week, and half the crew already left ..."

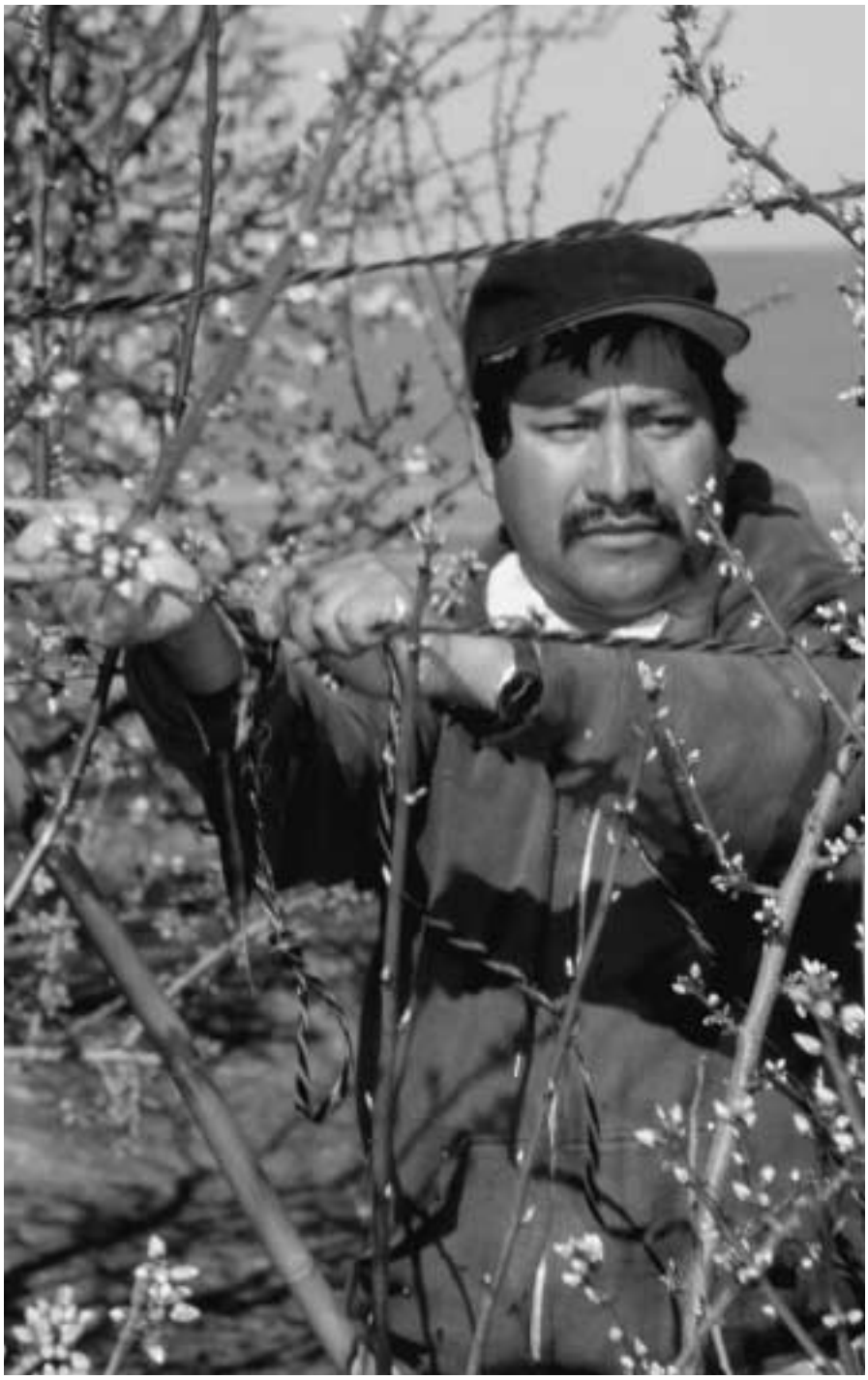
Crew members sometimes exert pressure on overly productive coworkers to have them slow down. They fear standards will be increased (i.e., they will have to put in more effort to make the same amount) either now or in future years. A worker described how on a previous job he had been offered $1 per box of apricots picked. When he picked 100 boxes for the day within a few hours the rate was suddenly changed to 50 cents per box. Another worker explained, "If we are making too much on piece rate we are told to also weed, and that reduces our earnings."[14]

At a large orchard operation, top management was mistakenly focusing on average earnings per hour (by translating piece rate costs into hourly wages). Instead, they needed to focus on *cost per acre* or *cost per job*. When piece-rate paid workers made what to top management seemed like overly high wages, their pay rate was reduced with disastrous results: the best employees left, and trust was destroyed for those who remained.

In order to counteract management's tendency to lower the piece rate, a clever production manager formed crews where high earning workers were balanced out with slow ones. This kept top management satisfied (because the average cost per hour was not too high) and yet allowed fast workers to earn more with less fear of having their wages cut.[15] This practice, of course, does not solve the real problem, nor does it entirely overcome the disincentive to faster, more effective work. For instance, this production manager may not want to use a practical test to improve the number of superior crew workers because of the wrongful dependence on costs per hour as a productivity gauge. It just wouldn't look good to his supervisors if workers started earning more.

The changes in standard may not be blatant. For instance, when hourly paid crews get a cost-of-living raise, farmers may reason piece-rate paid crews do not

Growers will not derive the full benefits of piece-rate pay until crew workers are confident that high earnings today will not translate into reduced rates in the future.



need one as they are already earning double the wages. Without the raise, the premium for *effort* given to piece-rate paid workers is thus reduced. Yet those on piece rate exert considerably more effort, as can be attested by anyone who has seen piece-rate paid pickers running through the field as they carry lugs or buckets of fruits or vegetables.

The design of the incentive may be poor, also. For instance, one nursery grower gave employees an incentive for achieving a percentage of improved productivity over previous performance, and noted that employees "reached an expected threshold and there was no further change" after that. The more workers improved, the harder it would be to surpass previous performance levels and gain an incentive reward. This employer dropped his incentive program. I wonder if performance reverted to a lower level, too.

To conclude this set of examples with a more positive one, a prominent California vineyard operator called in frustration: "We have an employee who is earning $45 per hour by the piece! We must be doing something wrong!" Like the other farmer, they wanted to cut piece rates, but fortunately these growers called before making the change. I was able to explain that $45 per hour for the best employee was not out of line to what the research indicated. The best farm worker in a crew was capable of four to eight times the performance of the worst. I *congratulated* this farm enterprise, they had achieved trust from the workers!

Sometimes farmers get paid less for their commodities. When producers are forced to cut incentive wages in order to stay in business, they are likely to lose workers' trust. Part of an effective labor management policy is to carry over farm income to protect workers' future earnings. This will help balance out some of the rough spots so inherent in agriculture.

Some jobs require extra *effort* while others mean extra *time* (e.g., time spent improving quality). Incentives should compensate employees for the extra amount of time required to accomplish a job. For instance, if employees spend about half an hour more per milking shift to improve milk quality, the incentive should pay more than the half hour per shift the dairy farmer would have had to pay on an hourly basis.

Hire fewer workers for longer periods. Workers are less likely to slow down when they realize there is plenty of work to do. When time frames are not critical, it is often preferable to hire fewer, better-qualified people to do the job. You can manage to save money while providing a longer season and higher pay rates for employees.

In agriculture, there is often little continuity in crews from one year to the next. While normally this presents a training challenge for growers, here it is an advantage. The farmer introducing an incentive pay system is free to set a crew size small enough to have plenty of work for the season. Farmers will want to work toward reducing seasonal turnover, and keep some of these excellent employees. Producers who hire year-round workers, on the other hand, can have a policy of reducing their work force by attrition rather than by terminations.

Protect senior workers. Farm employers may, through a careful selection process, avoid hiring employees who cannot perform the job. Those who employ workers without first testing them may want to encourage the most productive workers to come back each season. Farmers who have poor performers in their staff may wish to deal with this issue before introducing an incentive pay program.

Sooner or later farmers need to deal with long time employees who are no longer in their prime. Many farmers rightfully feel a sense of responsibility for these workers and often find less strenuous tasks for them. For instance, some growers employ older workers on an hourly basis to sort or check for fruit missed during the harvest. It is not uncommon for senior workers to outdo younger ones, of course, and assumptions about worker capabilities based on age are often unfounded.

Provide timely performance feedback. Effective performance appraisal and communication is critical.

For a worker paid on a piece rate, being sent back to redo a job as a result of poor quality means reduced earnings. Supervisors need to provide effective training and appraise worker performance in a timely fashion. Farmers who have workers earn the right to work on an incentive pay crew (see Sidebar 8-2) by showing complete understanding of quality issues ahead of time, are likely to end up with fewer miscommunications with their employees.

The simple act of making a list of criteria that are important to you and sharing those with workers will go a long way towards improved quality. Taking the next step, of sharing with employees how well they are doing, can cement good habits. It also helps to provide samples of what is considered good quality work. For instance, one can provide a color-coded chart to illustrate minimum or maximum color requirements, or what a completed job should look like.

Be sensitive to physical demands. The physical demands of piece-rate paid work are such that workers need to work fewer hours than when paid by the hour,[16] or risk health problems. This is especially so with more physically demanding jobs in the summer heat. Generally, the maximum workers can perform when paid by the piece is seven to eight hours. It is important to provide plenty of cold water and have it sufficiently close to the work being performed so workers will drink it. It may be necessary to provide worker training on the importance of drinking sufficient water. Encouraging workers to drink early (before they become thirsty) and at frequent intervals may reduce body fatigue.[17]

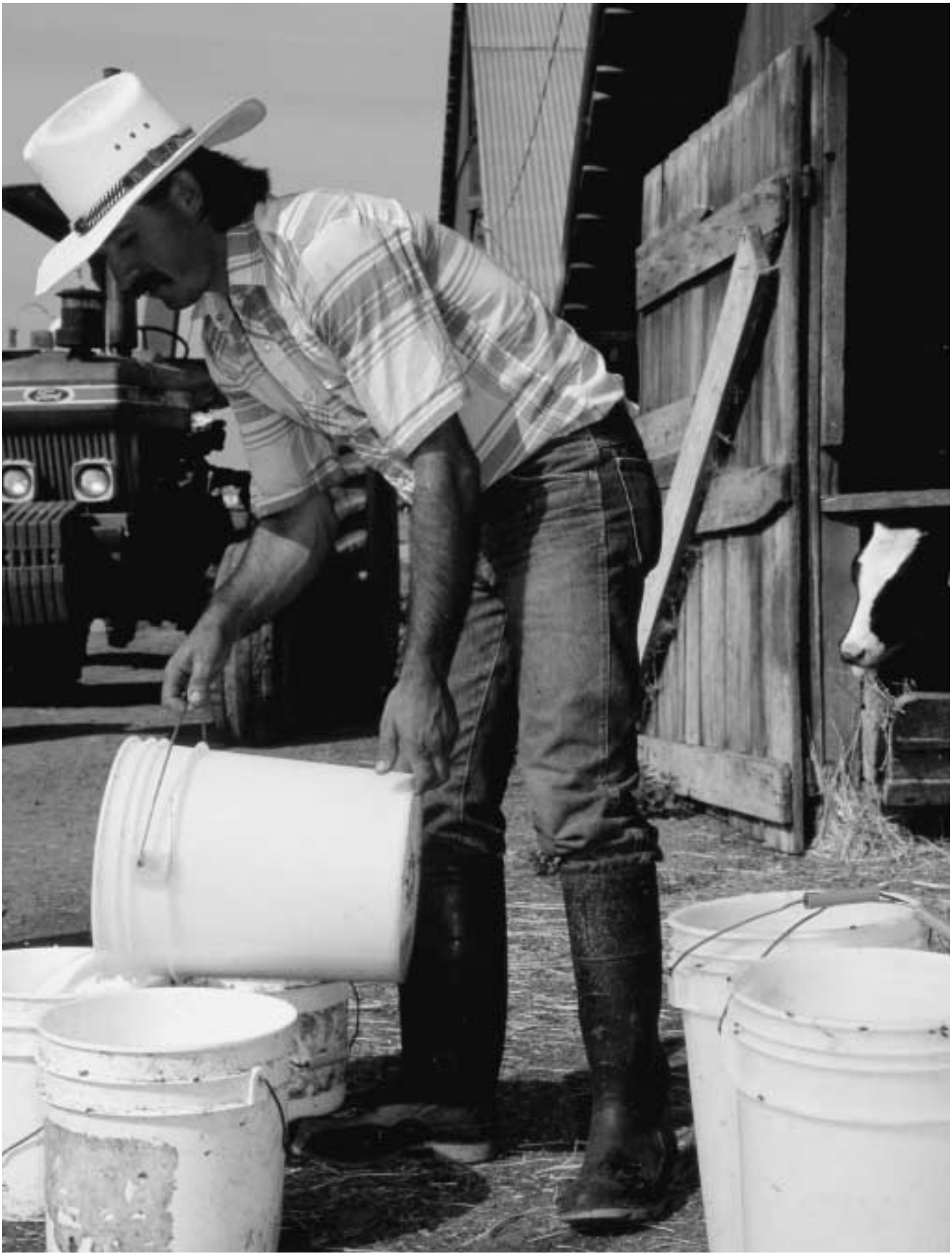
Sometimes farm employers are pressured to get crops in but need to resist pressuring workers into staying longer. Some farmers have been effective in getting employees to stay when rain threatens to destroy a crop. They have done so by raising the piece rate substantially (which works fine in this case, as the workers will get the next day off and can rest). In some cases, an alternative would be to use more than one shift or additional workers.

Encourage workers to take rest breaks. One disadvantage of piece-rate pay is that most employees forego their breaks.[18] Making sure employees take their breaks is likely to reduce injuries and mistakes as well as increase worker preference for piece-rate paid work. While those who perform hourly paid tasks take breaks on the farmer's time, those on piece rate would have to do so on their own time. One way to encourage employees to take breaks when paid by the piece is to bring warm bread or cold sodas out to the crews. Even more effective, is to insist that workers take a rest and pay them for the break time, either on an hourly basis or as a proportion of their piece-rate paid earnings.

Provide a safe environment. The hard pace of piece rate may increase back or other work-related injuries.[19] Farmers should consider ergonomic measures that facilitate, to the greatest extent possible, a work environment free of injury and illness. Some suggest worker pace should be limited to protect workers from injury. Unfortunately, as we said when discussing this issue as it related to quality, limiting the total performance of workers would only be effective on a worker-by-worker basis, as optimum pace varies among employees.

Injuries at the beginning of the season when workers may have had long periods of inactivity need to be guarded against, also. Employers may want to go to an occupational medicine facility to design an appropriate warmup or stretching exercise program for workers. Effective employee selection, training, and supervision can also do much to reduce injuries.

Avoid chance incentives. Chance incentives use luck (e.g., a chance at winning a TV or trip) to reward specific worker behaviors or results. Often those who are poor are especially attracted to gambling, hoping for things they are unlikely to achieve unless they get lucky. Employers who use chance incentives are gambling for the employee.



If an expectation is set that employees can easily make the top incentive goal (e.g., for improving quality), the incentive may act as a demotivator. A herd manager, for instance, may start each month assuming he will earn the full possible award for reducing calf mortality. This herdsman will be discouraged when he sees his bonus vanishing as each month comes to an end. Farmers can encourage employees to try their best but set up more realistic expectations of what can be achieved.

In the *short run,* some chance incentive programs may produce the specific behaviors or results employers are looking for. But how appropriate—or to use a stronger word, how ethical—is the use of such chance incentives?

Key questions farmers might ask themselves before implementing a chance incentive are: Is it fair to each worker? Who benefits from the incentive? Is the incentive being offered because paying each worker would cost too much? Or because what each worker would get would seem too little? Are all workers rewarded for their work efforts?

Step No. 6. Improve communications

To improve communication with and between employees:

- Build positive interpersonal relations.
- Explain the program.
- Prepare a bargaining style.
- Provide feedback.
- Be open for suggestions.

Build positive interpersonal relations. Positive interpersonal relations between management and employees, as well as among employees, are a must before installing a successful incentive pay program. Incentives often add some tension and stress, especially at first, before results showing success are clear. Added demands for positive two-way communication, feedback, and teamwork will increase. If interpersonal conflicts already exist, they should be worked out first (see Chapter 13), rather than hoping they will dissipate after the incentive program is established.

Explain the program. A simple program will help build trust. At minimum, all workers need to know what is expected of them and how their performance will translate into pay. It helps when the incentive plan is presented to workers for review and comments before implementation. Workers might spot not so obvious shortcomings or obstacles, and they are more likely to accept the performance challenge when they are involved (see Chapter 10). Better yet, is to involve workers in the design of the incentive pay program from the outset.

If an expectation is set that employees can easily make the top incentive goal (e.g., for improving quality), the incentive may act as a demotivator. Instead, farmers should encourage employees to try their best and begin by shooting for the lowest level. If the accomplishment exceeds the workers' expectations, all the better.

Prepare a bargaining style. Some negotiation on pay rates may be

traditional. In seasonal agriculture some growers begin with lower pay than what they feel is fair to the workers, knowing that tradition demands they raise wages throughout the season. Others prefer to let workers know they do not want to play rate-setting games. Still others set a fair wage along with a healthy end-of-season bonus that discourages employees from leaving or threatening to leave in mid season.

When a grape grower announced he was paying $0.30 per vine, crew members protested. They could not afford to work for this small amount, they argued. It appeared workers would refuse to work. The farmer stood cool and firm, and soon the workers smiled and said the wage was just fine, in fact, a cent *better* than the previous year.

A grower offered pruners $0.28 per grapevine. Workers adamantly refused to work for this wage. The farmer then labeled each row and offered the same crew $22.40 per row instead. The pruners gladly accepted. This farmer had just multiplied the 80 vines in the row by $0.28 to end up with the identical final price per vine. With this approach, however, a farmer may be gaining short-term success at the expense of future trust.

Another grower encountered stiff resistance from crew members after announcing the pay rate. They pointed out the neighbor's higher wages. The farmer aggressively told workers they could look for work elsewhere if they did not like the rates. This situation ended up in a labor dispute, as workers felt they had been *constructively discharged* (i.e., forced to quit) in order to save face.

Instead, this farmer could have calmly explained how he arrived at the pay level and told employees he hoped they would be able to work for him at this wage. Perhaps the neighbor pays more but keeps employees for a shorter season or does not provide as many benefits.

Not everyone can handle the high pressures of negotiating with a crew. I would prefer to post wages where they can be readily seen by all applicants. The farm employer avoids (1) surprising workers, (2) haggling with the crew, or (3) taking a chance on a confrontation that may get ugly and out of hand. A farmer who expects not to have to haggle over wages needs to be sure that the wages she offers are fair to begin with.

Provide feedback. Producers need to provide frequent feedback to employees, regardless of the usual pay interval. For instance, crew workers may be paid on a weekly basis but receive daily performance feedback. Feedback may be given in person or posted to safeguard worker anonymity.

An effective method of providing meaningful feedback is through a separate paycheck, or "adder,"[20] for the incentive. For greatest effectiveness, adders should be given at a different date than the usual payday, or at the very least, in a separate check. This reminds the recipient that the extra compensation is for a specific purpose (e.g., such as a wet winter or harvest months involving long hours) and will last only as long as the condition merits.

Be open for suggestions. After the incentive is in place, workers may not be pleased with it. A dairy farmer who employed five workers was approached by two of them. They asked for a raise and the elimination of the incentive pay program set up a year earlier.

The producer, rather than ask the other workers if they also wanted to eliminate the incentive, asked everyone, "What can we do to improve the incentive pay system?" In the end, he ended up with a successful program, with workers earning $300 a month in incentives.[21]

Step No. 7. Periodically review the program

Record keeping and statistical analysis are critical to determine the success of the incentive pay program. Good controls are crucial so incentive pay results can be isolated and correctly attributed to the pay system. If a farmer introduces other changes simultaneously, she may never know the impact of the incentive program. There are a number of statistical tools that may

be used to analyze results. Your computer spreadsheet may already allow you easy access to these tools. You may want to consult with a statistician, labor specialist, farm advisor or county agent on what statistical tools to use.

Results may indicate directions for change or improvement. Once the program is in use, changes must involve workers in order to maintain the trust that is so essential to the success of an incentive pay program.

Farmers can benefit from keeping records even if they are not providing incentives. These records can help establish base lines essential for establishing standards for future performance.

In some cases, incentive programs are dropped too soon, without giving the systems sufficient time to work. Several farmers who have established successful incentive programs have mentioned the need for patience—sometimes having to wait several months for the program to function well.

SUMMARY

Incentive pay has the potential to increase worker productivity if properly designed and maintained.

Even though employees know that attention to detail, increased productivity, or suggestions may bring about rewards, casual incentives are characterized by the inexact or unexpected timing and amount of the reward.

Farmers' structured incentives are most likely to succeed if they have (1) accurately established standards; (2) clearly linked superior performance with pay or a valued reward; and (3) carefully considered what type of performance the incentive stimulates. Effective incentives are designed so the more an employee earns, the more the farmer benefits.

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